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UNDERSTANDING THE CONSTRAINTS AND OPPORTUNITIES FOR DEVELOPING SUSTAINABLE 'PRO-POOR' ENTERPRISES – A CASE STUDY OF MNP

by

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfillment of the requirements for the degree of Master of Management, (in the field of Public and Development Management)

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ABSTRACT

Private sector-led development has become widely adopted by donors and development agencies who have designed programmes to address market failures impeding the growth of 'pro-poor' enterprises. At the same time, high value agricultural products have been identified as a particular area of value chain opportunities for enterprises based in low income communities. This research report critically assesses the constraints on such a development approach through an in-depth case study of Marula Natural Products (MNP). MNP has received substantial donor support over the past ten years to support the processing and marketing of marula-based products. The main findings are that, despite this support, MNP has not met expectations because of significant challenges including poor institutional arrangements, inadequate and inconsistent management attention, absence of entrepreneurial drive/risk-taking and a mindset of donor dependency. These issues identified in the case study are relevant for the review and improvement of such donor programmes if communities are to be enabled to participate more effectively in international value chains.

DECLARATION

I declare that this report is my own, unaided work. It is submitted in partial fulfillment of the requirement of the degree of Master of Management (in the field of Public and Development Management) in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.

_____

Korlekour Rosina Cudjoe

28 February 2009

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CHAPTER ONE

INTRODUCTION

1.1 Background

In response to persistent high levels of poverty, there has been a shift in development thinking from the paternalistic development patterns of aid to the apparently more sustainable, market-related, private sector-led development. Private sector-led development is a market-driven approach based on the principle that markets are efficient in allocating resources.

Within this approach, ways to intervene in the markets will be important as worsening levels of poverty and inequality persist. Low income household groups are disadvantaged in the market economy because of information asymmetry and numerous entry barriers to business opportunities such as the inability to access finance or markets. The market reforms approach which was promoted by the Washington Consensus in developing countries as a way to achieve economic freedom has created highly uneven 'dividends' and new models are required (Cramer, 1999b; SIDA, 2003: 8). It is now widely recognised that appropriate interventions must be put in place to address market failures.

Donors and development agencies have identified the concept of value chains as an important framework to realise opportunities for low income households. This research report presents a case study of a pro-poor enterprise called Marula Natural Products (MNP) which was set up by the Mineworkers Development Agency (MDA) in 1998 as an income generation project using donor funding. The focus of the enterprise is to process and manage the 'wildly abundant' indigenous product, marula, to catalyze and stimulate local economic development in the impoverished areas of Bushbuckridge in the province of Limpopo, which were previously dependent on mineworkers' remittances.

The value chain framework is an holistic way to examine what the elements of economic activity are and how they interact to produce value for the end user. Using instruments such as business development support, 'making markets work for the poor', and access to finance, development agencies aspire to bring the low income households into mainstream economic activities and opportunities. While the aspiration is to do this through indirect market-driven methods, desperate situations have compelled many donors to intervene directly in the practice with varying levels of success, challenges and complications.

Commercialization of indigenous traditional products — also known as non-forestry timber products (NFTPs) — through formalisation and management of small-scale pro-poor agro-processing enterprises is on the increase. The promotion of NTFPs and high value agricultural products (HVAPs) in general is in line with the new development drive to increase value addition in primary commoditization in developing countries. This is against the backdrop that in developing countries, including Africa, as much as fifty per cent of their export earnings is derived from primary commodity despite the fact that no country relying on primary commodity exports is found to be in high income brackets, with the exception of oil-rich producers. Only those that have moved into skills-intensive and technology-based industries or incorporated value-adding processes into their primary sectors are able to achieve high income levels (Farfan, 2005).

There is a wealth of traditional knowledge and products that exist in rural communities that, if commercialized, promoted and scaled up for local and international markets, can play a role in income generation in poor-income rural areas. Trading indigenous product in local, national and global niche markets is an attractive proposition and opportunity for African rural communities, but with this comes significant challenges (Ham, Akinnifesi, Franzel, Jordaan, Hansmann,

Ajayi, De Kock, 2008). Making traditional commodities attractive on the global market requires innovation in processing technologies, production and small business management skills and capabilities. Given the desperate poverty that exists in rural communities, it is clear that African countries have very little choice but to rise to the challenge as one way to realize sustained broad-based development.

This case study examines some of these contextual issues when an NGO with socially driven founding objectives such as the MDA sets up an enterprise project with donor funding to do initial research and development (R&D) with the hope that it can become commercially viable. The objective is to realise opportunity of community ownership and employment to address desperate poverty in the governments' poverty node in the Thulamahashe area. The case study looks at development of MNP first as a 'project' to investigate the viability of marula as a commercial product through research and development. Secondly, it is examined as a viable commercial entity that must deal with the challenges of technology for efficient production, develop business systems and infrastructure in a rural area, find markets for the products, maximise production efficiencies and manage labour and other human resources issues. Thirdly, the research concludes with growth prospects for MNP because, despite the 'storms' in the project and commercialisation phases, MNP now has a strong market demand for its products and has a chance to embark upon a sustainable commercial growth path yielding increased benefits to the community for which it was established.

1.2 Background and context to MNP

MNP is situated in the Bushbuckridge district of Limpopo Province, a rural area of almost 2,500 km^2 situated between the Drakensberg escarpment and Kruger National Park. The last official census calculated a population of nearly 550,000

in the district (Statistics South Africa). As a rural area, consisting mainly of former apartheid 'homelands' or self-governing territories, work opportunities are few and unemployment is high. Bushbuckridge residents rely heavily on old-age pensions and migrant labor. More than a third of households are headed by single, divorced or widowed women and a further 20 per cent of households are headed by absentee men who engage in migrant labour (MNP, 2006). Thus, expanded opportunities to earn income locally are particularly important to more than half the households in Bushbuckridge.

Commercial agriculture is limited in the area due to erratic rainfall, nutrient-poor soils, and land scarcity. The majority of the land is devoted to communal rangelands. Bushbuckridge residents have traditionally utilized natural resources from these lands for a variety of subsistence, economic and cultural purposes.

One of the most common and valuable indigenous resources is the marula tree (*Sclerocarya birrea* in botanical taxonomy or *nkanyi* in the local Xitsonga language). This tree grows freely throughout the region. Its fruit and nuts can be eaten, while the bark and leaves are used as medicine. The fruit can be processed into juice, jam or beer and for generations households have collected marula fruit for brewing traditional marula beer. The fruit is generally collected after it falls to the ground, between January and March.

In recent years, non-traditional uses of marula have grown in importance, such as marula pulp for production of the high-value Amarula liqueur and marula oil, extracted from the kernel inside the nut, for high-end cosmetics products. These, together with use for beer brewing, have meant an increased financial incentive for collecting, as households are able to sell fruit collected and hence marula and its products are becoming more integrated into the cash economy.

Marula Natural Products (MNP) was established by an NGO whose founding member is the National Union of Mineworkers (NUM). In 1987, NUM was faced with strikes and 40 000 mineworkers lost their jobs, escalating to a national crisis with 300 000 more job losses over a period of 15 years. In response to this several interventions to assist unemployed members of NUM were attempted, starting with co-operative projects which were later deemed as ineffective strategy for job creation and abolished. While the co-operatives were not successful, it said that some interesting insights emerged which informed the decision to continue to pursue economic development as strategy. In 1995, the NUM co-operative projects unit was converted into an NGO named the Mineworkers Development Agency (MDA) to deliver enterprise development services through a network of its Development Centres to former mineworkers and their communities. It aimed to provide "follow up development support services, to support the miners who left the mines through retrenchments" (Philip, 2006: 134).

In February 2000, the Department of Minerals and Energy convened a tripartite summit in the mining industry. One of the teams established by the summit was tasked with developing an integrated rural development strategy for rural areas affected by mine downscaling. MDA has played an active role in this task-team, now called the Mining Industry Rural Development Committee which is a standing committee that reports to a tripartite secretariat, currently chaired by the MDA. The Integrated Rural Development Strategy agreed at the Mining Summit focused on eight pilot areas affected by mine downscaling, for implementation of integrated and co-ordinated rural development programmes (Barton, not dated). The MDA therefore contributes actively to the work of the tripartite Rural Development Committee and the Social Plan Task Team.

Philip (2006) argues that the all-encompassing 'social plan' that MDA was set up to meet, i.e. providing social protection and employment alternatives for those

who had lost their jobs, never happened. The numbers were too large and the task too daunting. A huge social crisis had emerged affecting communities that the MDA job creation programme alone could not address – 'it required an integrated response from industry and the state'. Philip acknowledges that the MDA learnt key lessons to develop strategies and programmes to give the organization a different focus, supporting 'enterprises on the margins'. A focus on enterprise development services was done through a network of Development Centres; the pilot was the Mhala Development Services where MNP was initiated. She also notes that all this takes place while South Africa was in a great political, economic and social transition from apartheid to democracy. This 'informed different policy approaches that had real impacts on the distribution of power and resources and on poverty and inequalities in societies'.

As explained, MNP is a small agro-processing enterprise set up by the MDA which itself was influenced by the Mining Industry Rural Social Plan. The case study of MNP will be used to explore the challenges that small agro-processing outfits face in developing a successful enterprise to secure jobs in a poverty-stricken community in Bushbuckridge. The enterprise has a strong commitment to empowering some four thousand local unemployed women, mainly the wives of mineworkers and their families.

MNP processes marula, a traditional natural resource, into fine high value oil for the cosmetic industry. MNP is located in Bushbuckridge where the residents have traditionally utilized natural resources, one of the most common and valuable indigenous resources being the marula tree. A large percentage of households collect the marula fruit and use it to produce a traditional beer. Marula beer production, sale, and consumption are highly important cultural and economic activities to local communities. Non-traditional uses of marula have also recently grown in importance, such as marula pulp for production of the high-value Amarula liqueur. In 1998, an opportunity was identified by the

Mineworkers Development Agency in collaboration with the United Kingdom's Department for International Development (DfID) to set up a business to produce marula oil for high-end cosmetics products to bring income to the local community of women (Philip, 2006). MNP was thus designed to empower 4,000 marula collectors in 20 per cent of the 193 settlements in Bushbuckridge, comprising 42 villages that collect the marula fruits and crack the kernels for MNP (MNP Annual report, 2004). However, it has had a mixed performance at best, not yielding the expected revenue and returns, with various explanations given including poor market demand, low productivity, and suboptimal business practices.

1.3 Problem statement

The study of social/pro-poor enterprises in the field of high value agriculture products, more generally and specifically in the processing of indigenous or non forestry timber products (NFTPs), is important because of their potential to reduce poverty and unemployment in rural areas. Donors see this potential and many have participated in setting up or supporting the development of agricultural/NFTP enterprises. However, many of these enterprises become marginal beyond donor support and many more fail altogether.

1.4 Purpose statement

In light of marginalisation, Marula Natural Products (MNP) has been typical. This research uses the case study approach to track MNP's ten-year history which has been characterized by a succession of donor funding, to understand the challenges it has faced in the past and what opportunities are available to MNP to make it a commercially sustainable enterprise.

1.5 Research questions

The main research questions are:

1. Using a value chain analysis, what have the key constraints/challenges been that impeded the performance of MNP? What interventions were put in place to address these challenges and what have the effects been?
2. What is required to make MNP a commercially sustainable enterprise?

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review involves embedding or incorporating the research into a body of knowledge that is pertinent to the research problem being addressed (Mouton, 1996). As such the literature will draw on the existing applied work, best practice and body of knowledge, including that found in development agencies' research into value chains and business development services, in order to conceptualize and develop the theoretical framework and provide a comparative context for the research.

The research outlined here draws on two intersecting bodies of literature. The first is on private sector-led development and the reorientation of public sector and donor interventions in this context. The second is on the challenges and opportunities in developing value chains, and especially increasing the participation by small rural enterprises in the processing of indigenous non-timber forestry products, such as the case study of marula examined here. In both areas, the academic literature has been closely intertwined with the intellectual debates in the evolution of different policy approaches.

The emphasis on market-oriented and private sector-led development strategies is epitomized by the 'making markets work for the poor' programme of DfID. This recognises the presence of market failures and the need for proactive interventions if market outcomes are to reflect effective participation of low-income households as both producers and consumers; hence markets must be made to 'work'. I very briefly review the context to private sector-led development before engaging in more depth with the literature on the necessary

interventions and conditions for the effective participation of small and medium enterprises, in rural economic development in particular. This includes literature on the provision of Business Development Services. Donor support and an economic development rationale also means that such enterprises are not necessarily exclusively oriented to making profit, but have a range of non-profit objectives, and sometimes ownership, meaning they can be defined as social enterprises (Shaw and Carter, 2007: 419-422).

The second body of literature is equally extensive and diverse. The framework of value chains has been increasingly used to understand the nature and location of economic activity, where there are successive steps in processing raw materials through to the marketing and retail of finished products to consumers. The value chain concept can thus be employed in a descriptive way to break down the various stages of activity and to describe linkages between them. It can also be used analytically to understand why activity takes place, by whom and where, as well as the control over the overall returns from the production. In this report, the value chain framework is employed to understand the challenges of the specific business environment that have to be addressed by the interventions to support pro-poor enterprises and thus make markets work for the poor in practical ways. This then includes understanding the nature of linkages from inputs to outputs, the importance of product specification and quality, and market access, as well as of negotiating appropriate relationships with other []

2.2.1 Private sector-led development

The orientation of private sector-led development must be viewed in the context of economic policy debates of the last two decades. The 'Washington Consensus' on the 'right' economic policies for developing countries, as determined by the World Bank and International Monetary Fund, together with the structural adjustment programmes designed by these institutions for countries that ran

into debt crises, were founded on the belief that development had been inhibited by excessive state intervention and a squeezing out of the private sector (Cramer, 1999b: 1-5). The private sector and market mechanisms more broadly were held to be more creative and responsive, allowing entrepreneurial spirit to be unleashed and rewarding individual effort.

There is neither the space nor the need to go into these debates in any detail here. Suffice it to say that history and more recent analysis has demonstrated that the neo-liberal policies were not a success, and structural adjustment programmes caused lasting damage in many countries (see, for example, Cramer, 1999b; Stiglitz, 2004). In general, the lesson has been learnt that sensitivity to the local issues underpinning failures of development is the key to designing effective interventions (Rodrik, 2004; Gibb and Li, 2003).

More specifically, the Washington Consensus has broken down because it is recognised that its assumptions about markets were incorrect in important ways. It assumes that there is perfect competition and perfect information. Without these, all players and potential players definitely do not have equal opportunities to compete, markets are not self-regulating nor are they efficient in allocating resources (Stiglitz, 2004). Instead, the bigger and more established businesses have better access to resources, information, technology and markets, and thereby largely control the game. This does not mean a return to state-led and centred development, as the many weaknesses of the state are also recognised. It is widely accepted that seeking economic opportunities for wealth creation is driven largely by the private sector which is also an important source of innovation and job creation. Government bureaucrats are not necessarily able to identify where and how best to allocate resources in the economy, nor are governments best placed to identify the best opportunities for productive development at a micro level. As such, much more needs to be done to explore the underlying causes of market failures, and their social implications within a

given context, rather than simply adopting assumptions about possible solutions drawn from other contexts (Nichols, 2006).

At a global level, the need for approaches which combine the creative energies of the private sector and firms with the strategic interventions of governments and other social actors including donors and NGOs, is reflected in the resolutions of United Nations initiatives to address the world's many pressing social and ecological problems such as poverty (UNDP, 2004; Wheeler, McKague, Thomson, Davies, Medalye and Prada. 2005: 33).

I turn now to debates about how to pursue such an approach in practice, particularly in the context of globalisation. Private sector-led development is an approach that accepts that the best way to achieve economic growth is to work with market principles while recognising market failures and imperfections. The private sector is conceived as a basic organizing principle for economic activity in a market-based economy where physical and financial capital is generally privately owned. Markets, competition and profit drive resource allocation and production; decisions are made and risks are taken as a result of private initiative (SIDA, 2003).

Globalisation has meant both opportunities for private sector-led development, and threats for the small business, requiring appropriate government intervention (Kaplinsky, 2000). The opportunities relate to the greater markets that can be accessed. For example, in the case study examined here, marula products can develop specialist appeal in export markets around the world.

However, liberalization of global markets has increased competitive pressure and enhanced the role of economies of scale implying higher levels of concentration. Increased international competition also reduces returns to firms that fail to innovate and distinguish their product. Continuous product changes and

branding strategies therefore gain importance as a market differentiation and upgrading strategy. Reliable and timely delivery, and error-free production, smooth supply chain logistics and short time-to-market thus become increasingly important for the success of companies (Altenburg, 2007).

Some firms increasingly dominate their business partners upstream and downstream in the value chain, imposing their own rules and acting as gatekeepers to the market. Their dominance arises from specific capabilities, mostly the capabilities to innovate, to create brands, or to co-ordinate the whole production process (Altenburg, 2007: 24). It is particularly difficult for smaller businesses to participate in international markets without being subordinate to larger and international corporations. In addition, rigid and expensive standards are imposed in value-adding processes from the international firms and local regulatory authorities posing yet another barrier (Kaplinsky, 2000; Altenburg, 2007)

The opportunities and challenges have been captured in a broader approach to market development and poverty alleviation characterised as 'making markets work for the poor', or MM4P (Mielbradt and McVay, 2005; Morgan, 2006; Gulati, Minot, Delgado, Bora, 2005). The framework of MM4P has emerged in response to increasing penetration of the global economy and the UN Millennium Goal to cut extreme poverty in half by 2015 (SIDA, 2003). The aim of the MM4P approach is to accelerate pro-poor growth to achieve positive outcomes for the poor in their role as entrepreneurs, employees and as consumers. The framework suggests that key to this is to integrate the poor into the global economy on beneficial terms. To do this it is important to address the "broad enabling environment, policies and regulations related to specific markets, support market and infrastructure, and market relationships that provide the poor with more influence, autonomy and market choice" (Mielbradt and McVay, 2005: 7).

While some such as Prahalad (2005) have emphasized the poor as consumers in stimulating the private sector, this has been criticized as not understanding the importance of low income communities as producers and potential business partners in order to sustainably raise their incomes and alleviate poverty (Hart, 2008). The recognition of the importance of economic participation is not new but the challenge is to attain it in practice. This stems from the fact that market-based initiatives targeted at low income sectors have to create the conditions for market forces to flourish in environments where they have previously floundered and it is clear that a single entity government or private sector cannot do it alone. It requires 'a *tour de force* towards institutionalisation, creating trust-based stable relations among reliable partners in highly vulnerable socio-economic environments' (ReVista, 2006: 49). Countries like China have long recognised this and operating as a social market economy has enjoyed rapid growth in the last 15 years, mainly from small enterprises owned by local communities and partly controlled by local government (Gibb and Li, 2003).

2.2.2 Rationale for public sector and donor intervention

The competitiveness of businesses depends partly on the co-ordination of upstream and downstream relationships and the production system in which the business is embedded. Thus, while there may be greater opportunities under globalization, there are more significant barriers to overcome, as competition is more intense and the supporting relationships are better developed in industrialized countries and regions. The market failures identified above further mean that there is an inherent path dependency – developed regions have more efficient markets, with better information on opportunities.

To alter the development path of a relatively undeveloped rural economy thus requires intervention. If this intervention can correctly identify the obstacles and

address them, then the returns are also potentially high in triggering the development of sustainable commercial activity (SEEP Network 2006; Lusby 2007). Public agents can act to stimulate a specific market where no market exists and where there is a market monopoly, such power can be counterbalanced. However, the correct balance between the public and private sectors is very hard to determine. Rather the focus needs to be on exerting 'leverage' at different levels to enable enterprise development.

Factors which impact on the performance of small and medium enterprises in general (not necessarily limited to social enterprises) are clearly also important. There has been increasing emphasis in the last ten years on the importance of small and medium sized enterprises (SMEs) in economic development (Khan, Bali and Wickramasinghe, 2007). In South Africa, the Department of Trade and Industry with some donor support has put together a strategy to promote, develop and support Small, Medium, and Micro Enterprise (SMMEs) as part of government poverty alleviation, job creation and economic growth strategies. However, the assumption in the strategy that SMMEs are homogenous has been criticized, as has the multitude of objectives (Broembsen, 2003). This raises a wider question of the inter-relationships between SMME development, poverty alleviation, job creation and economic development.

At the micro level, assistance can be aimed directly at market players, currently a very common area of support. It includes building competence through the training of entrepreneurs, managers and technical staff, and the development of market-based business development services (BDS) to enterprises, such as in accounting, marketing, management and quality control (SIDA, 2003: 14). In this regard, it is also necessary to identify the particular situation of the target of a programme, for example, poor rural women. A case study approach, as adopted in the research proposed here, enables these specificities to be taken into account.

2.2.3 Promoting SMMEs in South Africa as a strategy for job creation and poverty alleviation

The South African government's SMME strategy is set out in the Department of Trade and Industry's (DTI) 2003 White Paper, *National Strategy for the Development and Promotion of Small Business in South Africa*. South Africa has particular challenges when it comes to increasing the participation of low-income communities as these have been marginalised under apartheid. However, the so-called 'first economy' is capital-intensive in nature and therefore hopes of substantial job creation lie with SMMEs, most of whom are in the 'second' economy (World Bank, 2007). According to the DTI, small businesses represent 98 per cent of the total number of firms and employ 55 per cent of the country's labour force (World Bank, 2007).

In addition to the DTI strategy, the Department of Minerals and Energy has also undertaken initiatives to try and address unemployment and poverty in rural areas, where mineworkers largely come from, as well as being where mining activity is located. There are many other initiatives driven by different actors, including donors, development agencies and civil society groups that now believe that successful enterprise development can help to reduce poverty and spur economic growth.

While the efforts at SMME promotion have resulted in a large increase in SMME start-ups over the past decade, survival rates have been low and a critical mass of small enterprises has yet to be integrated into the mainstream economy (World Bank, 2007). Moreover, the growth and performance of these enterprises does not match up to the effort and investment put in. Criticisms include that the SMME strategy has too many objectives, and that it requires a large network of effective NGOs to implement it, with government merely playing a facilitating role (Broembsen, 2003). Another potential weakness is that the support offered tends to be supplier-driven and not responsive to firms' requirements. That is, it

tends to start with an assumption that SMMEs require training, micro-credit and mentoring and so offers these services at subsidised rates. The need may be there but it is important that the services are valued by the recipients.

Furthermore, micro enterprises generally operate in market niches characterised by low income and low value-added activities (as opposed to high income, high value-added activities) which often results in overtrading (Blottnitz, 2007).

Another major problem with the strategy to promote SMMEs in South Africa is that many of the interventions are not well-integrated and aligned. Interventions within the legislative framework to promote enterprise development include the micro-economic reform strategy, Accelerated and Shared Growth Initiative South Africa (Asgisa), Draft Regional Industrial Development Strategy (RIDS), National Strategy for the development and promotion of franchising in South Africa, the strategic framework on gender and women's economic empowerment, the national youth enterprise strategy, the co-operatives policy and draft strategy, draft strategy framework for forestry enterprise development and the BEE. While at a government level these interventions are not aligned, the financial services sector which has the potential to fuel these initiatives sits with its own constraints whereby (Radebe, 2008):

- There is little or no seed financing provided to entrepreneurs
- The banks have a significant preference for larger, credit-based transactions
- There is a shortage of due diligence capacity
- The cost for financing the lower end of the market is relatively high
- Lack of security and own contribution
- Sub-standard applications and high levels of rejection – 80 to 90 per cent of applications.

It is therefore important to distinguish the different areas in which SMMEs are operating, and can enter. In penetrating high value-added activities, empirical evidence shows that top-down efforts are usually needed to introduce, sustain and institutionalise bottom-up effort. We are often tempted to think "either/or" but both are needed in a positive sum, and the interaction between the two needs to be dynamic (Woolcock, 1998: 81):

> "in the case of bottom up development, intensive extra-community ties (integration) must begin to coexist with more extensive albeit 'weaker' extra-community network (linkage), while at the same time top down combination of state-society relations (synergy) must coexist with cohesive corporate ties (integrity)".

2.2.4 Pro-poor or social enterprises?

Various initiatives have emerged internationally under the MM4P banner to support the emergence of businesses to achieve a combination of social and economic outcomes. Such businesses have been classified as 'pro-poor' in that they increase the incomes of low income communities through their ownership and control, as well as returns for their labour (Miehlbradt and McVay, 2005). Pro-poor enterprises in private sector-led development are those enterprises that help to reduce poverty by (SIDA, 2003: 8):

- direct inclusion of the poor in economic activities, contributing to their employment, income and return to labour, and reduced vulnerability;
- economic growth as the means of generating resources in a society and enhancing productivity, employment and income;
- redistribution so that the resources generated from growth are invested meaningfully for the poor, especially in human resources development — redistribution also includes assets. Countries with a skewed distribution of assets such as land are generally much less effective in reducing poverty.

The term 'social enterprise' can also be used in this context to mean ventures which blend their value creation around both economic and social impacts (Emerson, as cited in Nichols, 2006). The enterprises have a social role which derives from their location within socially inclusive strategic networks that seek to bring the market closer to low-income sectors (ReVista, 2006: 49). Moreover, social values are also at the heart of strategic planning within the genuine social venture, whether it is a commitment to community building, social justice or eliminating suffering (Nichols, 2006). Notwithstanding, social entrepreneurship should 'bring to social problems the same enterprise and imagination that business entrepreneurs bring to wealth creation' (Shaw and Carter 2007: 421). Shaw and Carter explains further by highlighting five key themes within which comparisons can be made between the social enterprise and the for-profit organization. They include entrepreneurial process (opportunity recognition), network embeddedness, the nature of financial risk and profit, and the role of individual versus collective action in managing and structuring enterprises, creativity and innovation. However, a study conducted by Wheeler, *et al.,* (2005) on 50 sustainable social enterprises concluded that most of these social enterprises owed their success to 'a dense network of for-profit businesses, local communities, not-for-profit organizations and other actors who work in a self-organised way to create value in economic, social, human and ecological terms'.

The social nature of such enterprises and their objectives also raises important challenges in terms of their governance and management (Zografos, 2007; Spear, 2006). The range of objectives means that the enterprises may not be as focused as when focused solely on profit, raising challenges for the composition and operation of the board or other governance structure (Mort, Weerawardena, Carnegie, 2003; Low, 2006). In addition, the enterprises do have to be sustainable, and thus to be operated on commercial principles (Shaw and Carter, 2007).

2.2.5 The role of business development services (BDS)

BDS are provided to assist and increase the effectiveness and competitiveness of SMEs, particularly pro-poor enterprises. They encompass financial and non-inancial support. In the past, BDS was focused on non-financial services, providing training, consultancy and advisory services mainly to address internal constraints such as lack of education and technical capacity. The relatively narrow approach gave little or no recognition to the fact that trade markets affected small businesses more, undermining the effort put in (Philip, 2006: 166-167). Over a decade, the field has evolved such that BDS now refers to a more holistic approach with a wide range of services used by entrepreneurs to help operate and grow businesses and includes marketing assistance, information, technology development and transfer, business linkage promotions and, in some quarters, access to finance (Tanburn, Trah, and Hallberg, 2001; Steel and Webster, 2001).

The previous supply-driven approach also could mean that a basket of services is offered by the state or donor indiscriminately to any business that so wants it. It is now agreed that it is important that BDS is demand-driven in line with market principles, and that experience is incorporated and critical evaluations made on an ongoing basis. Services will need to be tailored to the specific need of enterprises, including their stage of evolution. An important and related debate is around the role of BDS, such as consulting advice, in developing value chains and the need for value chain actors to themselves develop the capabilities to do analysis of the linkages and competitive capabilities that make up the chain (Roduner, 2007: 7). This will enable participants to keep up with market evolution and evolve with the value chain.

A second set of pitfalls relates to the risk that interventions can be distortionary, in that the subsidies skew the market by providing unrealistic or unsustainable privileges to some firms. Instead BDS must be carefully balanced, and should be

cautious about supporting individual enterprises, subsidising capital to commercial operators unless there are positive externalities, and that the basis for direct support should be such that it promotes the development of the market rather that competitive advantages gained through unsustainable subsidies (McVay and Miehlbradt, 2005; Steel and Webster, 2001). More commercially sustainable strategies for 'enterprises on the margins', linked to market access and entry to supply chains, may be to partner with established firms, but ensuring that the risk and returns are shared (Philip, 2006).

2.3 The value chain in Non-Timber Forestry and High Value Agriculture products

An overview of the value chain framework is provided to analyse economic activity, with specific reference to understanding the competitiveness and opportunities for participation of small and medium enterprises in Non-Timber Forestry and High Value Agriculture products. It also highlights the factors that compromise their capacity to participate in high value markets (Morgan, 2006) where, for instance, opportunities are limited for 'pro-poor' enterprise, because they lag behind international standards as well as lack information on how to exploit the opportunities (Altenburg, 2007: 26).

2.3.1 Overview of the value chain framework

A value chain is defined as 'the full range of activities that are required to bring a product from its conception to its end use: in other words, all the firms that buy and sell from each other in order to supply a particular set of products or services to final consumers. These include design, production, marketing, distribution, and support to get the product to the final user.' (Downing, Snodgrass, Northrip and Woller, as cited in Altenburg 2007: 6). It is the chain of activities that brings a product to market. These value-creating chains have structure, dynamic and outcomes components – the structure of the value chain

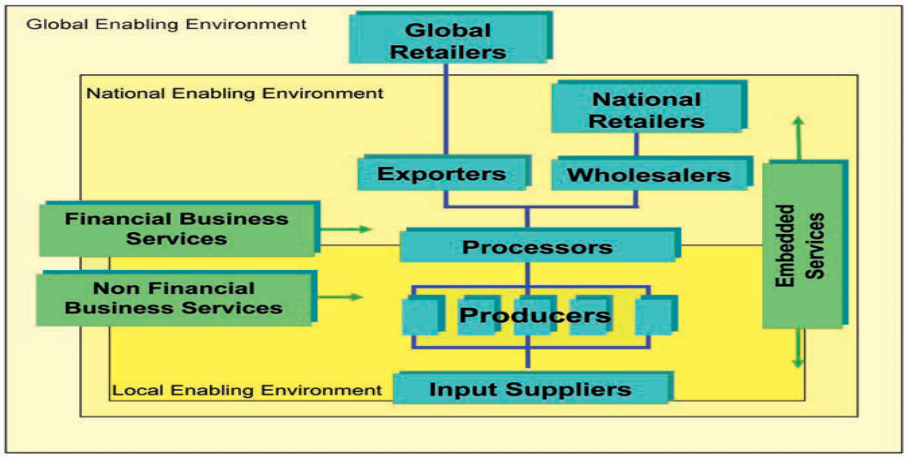
influences the dynamics of the firms' behaviour and these dynamics in turn inform how well the value chain performs (Kula, Downing and Field, 2006).

The Value Chain Structure

The structure of a value chain includes all the firms in the chain and can be characterised in terms of four elements (Figure 1):

- end markets (global and local)
- the local, national and international enabling environment
- vertical linkages between different levels of value addition, production and processing
- horizontal linkages with related services and activities.

Figure 1. The value chain structure



Source: Adapted from USAID 2006

The value chain framework allows us to understand economic activity in terms of value creation, located in a set of relationships or linkages. Firms purchase inputs and must be able to market their outputs. In most cases, on both sides they deal with other firms. The ability to earn returns depends on the capabilities of firms to transform inputs into outputs, the costs of the inputs as well as the valuation on the products produced. Typically this depends on the bargaining power of the

firms involved where powerful firms can be understood to govern the value chain as a whole (see Kaplinsky and Morris, 2000; Kaplinsky, 2000). The capabilities of firms depend also on a range of embedded services that are required, from Information Technology services, to appropriate commercial facilities and logistics infrastructure.

The value chain framework shows economic activity and value creation as taking place through a series of linked stages. A commodity is transformed through a chain of reactions by a series of actors. The transformation process involves raw material, and intermediate and final product actors who are linked by trade and services, with each one adding value to the product at various stages of the interaction.

The private and public sectors provide important services in the form of business development services (BDS), electricity, transport, financial and non-financial services which are governed by a legislative framework of laws, regulations and enforcement (or lack of it) (Roduner, 2007: 4-5). Roduner refers to this interaction as a system of actors (who deal with the product directly), supporters (services provided by indirect actors) and influencers (policy framework at the local, national and international levels). Just as important as the linkages are the interests of the different entities and the dynamics of their interactions. These interactions are constantly changing, requiring the analysis to be as dynamic, unless it is to be just a snapshot at a point in time.

Value chain dynamics

The response of firms to the value chain structure underpins important dynamics such as upgrading, inter-firm co-operation and competition, transfer of information and learning between firms, and power exercised by firms in their relationship with each other (Kula, *et al.*, 2006). These will be elaborated on in turn.

Upgrading is the investment firms make to achieve higher levels of efficiency, increase product differentiation or reach new markets and these processes are facilitated by factors such as a clear market opportunity, a supportive enabling environment, and the availability of critical services such as finance, technology, and information. Product development and improvement are integral to sustained competitiveness, to meet the market's constant demand for innovation (Kula *et al.*, 2006; Gibbon, 2001).

Inter-firm co-operation and competition is the extent to which firms work together to achieve increased competitiveness and greater benefits while also competing for supply and market share. Where co-operation is limited, strategies will tend to focus on short term, high impact activities that create incentives for participants to increase co-operation.

Transfer of information and learning between firms is at the heart of competitiveness. Through their relationships in the value chain, firms learn from each other and increase their overall knowledge of the causal factors in improving competitiveness of the products, and of their own activities in the value chain. This is crucial in firms' decisions to invest or upgrade, as such decisions must be based on information that it will be worthwhile because there is a market for it.

Power exercised by firms in their relationships with each other is also crucial, as the firms in a value chain have simultaneously common and divergent interests. Firms have a common interest in the improved competitiveness of the end product, which is dependent on the value chain as a whole. At the same time, firms wish to realize a larger share of the returns for themselves, which implies different interests in, for example, the pricing of an intermediate product for which one firm is a seller and another is a buyer (Kaplinsky, 2000; Kula *et al.*,

2006). The power relations are thus closely linked to the incentives that drive behaviour and determine which firms benefit from participation in an industry and by how much. The relationship can range from highly dependent, where power is distributed unevenly, to balanced, where all parties involved have some power that they can leverage. Power in a value chain invariably means benefits. Firms can derive and wield power from many different sources, such as control over branding, access to worldwide suppliers, control over key input materials, and through accessing and controlling information. Understanding the power dynamics in a value chain is also important to identify interventions that may improve the benefits to SMMEs in a competitive value chain, where SMMEs are typically in a relatively weak position.

Value chain outcomes

The dynamic elements of a value chain determine the performance of the value chain with two critical outcomes - competitiveness and benefits. These outcomes are interdependent in that if the chain is not competitive, benefits will erode over time. Competiveness is the ability of a firm to develop and maintain an edge over rivals and this can be done in three ways – producing and delivering goods and services more efficiently, differentiating products and services through quality standards and branding, and/or exploring new demand markets. To survive in global markets, a value chain must be able to deliver products to its consumers more efficiently, with a higher quality and/or in a more unique form than competitors elsewhere (Kula *et al.,* 2006).

The benefits and dynamic competitiveness can be reinforcing as, without sufficient benefits, the firms will lack incentives to invest and/or take on new risks – which is essential to the maintenance of competitiveness. High returns are not the only value chain benefits; others include more dependable and timely returns, reduced risks and increased value assets and learning. Firms with

more power receive greater benefits from business transactions (Kula *et al.*, 2006).

2.3.2 Value chain analysis to understand economic development

Through breaking down the processes and activities from product inception to market and even beyond, a value chain analysis can reveal where value can be added along the activities to maximise gains (Kula, *et al*., 2006; Morgan, 2006). This is useful to identify where networks can support the necessary value-adding activity along the value chain. Lusby and Panlibuton (2007: 8) suggest that a value chain analysis should meet the following objectives:

- Identify financial sales and market segments
- Identify market channels and trends within the value chain
- Identify the primary actors in the value chain, their roles and inter-relationships
- Create a value chain map that describes the above
- Identify constraints that hold back growth and competitiveness
- Identify commercially viable solutions that can address these constraints.

On a micro level, a value chain analysis can be undertaken by investigating the following:

- Market access
- Technology/product development
- Management/organization
- Input supply
- Finance
- Policy/ regulations
- Infrastructure, and
- Business membership organizations.

While value chain analysis can look at questions about the location and development of economic activity broadly, it can also be used with a narrower focus on a specific level of activity, the direct actors involved, the vertical and horizontal linkages, and the environment within which business decisions occur. As such, it can be used to identify solutions to the so-called critical success factors, which determine if a product meets the requirements with regard to quality, price, costs, dependability, volume, design and speed of delivery, and thereby improve competitiveness. It also highlights that the competitiveness at the firm level depends on its local embeddedness, and provides a framework for assessing these factors. This includes identifying the particular competitiveness challenges facing SMMEs in a given value chain (Lusby and Panlibuton, 2007: 13).

In addition, the horizontal relationships include actors such as NGOs which do not directly influence the process of value addition, but can influence the business enabling environment. The configuration of a value chain, therefore, is 'dependent on the peculiarities of the broader economic, social and cultural environment' (Altenburg, 2007: 6). This can lead to identifying interventions and appropriate support measures, through assessing where the overall benefit of an intervention is likely to exceed the cost (Roduner, 2007:6).

2.3.3 Non-Timber Forestry and High Value Agriculture products

High value agricultural products have been promoted strongly as a way for countries to move beyond dependence on agricultural and primary commodity exports. Globalisation and changing consumer tastes and preferences present good opportunities and incentives for commodity producers and small-scale farmers to move into or increase their participation in global value chains, based on high value agriculture activities. High value agricultural products (HVAPs) are products with high monetary value with emerging and expanding product markets worldwide due to changes in food consumption and lifestyle (Gulati, *et*

al., 2005). HVAPs include vegetables, fruits, flowers, house plants and foliage, condiments and spices, and natural plant products.

However, the high value market is highly sophisticated. It is demanding in terms of taste, standards and quality, making it difficult for small-holder farmers to make meaningful strides into this market. HVAPs such as cashew nuts requires processing and marketing to enable further value addition before export (Cramer, 1999a; SEEP 2006: 2).

Non-Timber Forestry Products (NTFPs) are a particular subset of HVAPs. These are products which are indigenous to a country and which can be readily harvested, and do not have to be farmed. Typically they would include specialist products which have traditionally been processed locally for own use but have not been further exploited. The demand for NTFPs has been increasing as preferences develop for niche indigenous products for beauty or health applications, and with the increasing impact of the fair trade and environmental movements (Ham and Thomas, 2008). For example, marula is sought after on the local, national and international markets as a natural cosmetic ingredient. NTFPs are thus sold mainly in niche markets where a premium is paid to promote natural and organic production, fair terms and environmentally friendly practices.

NTFPs provide an important opportunity as they can be processed for sale into high income markets. The processing of NTFPs are useful value addition processes that present an income and employment opportunity for pro-poor enterprise as well as the community or an entrepreneur that set them up (Ham and Thomas, 2008). They may provide genuine development incentives for the community, which can be further built into regional identity building (Reiner, 2005).

Marula is an example of one such product. It is an indigenous fruit which is abundant in certain regions of South Africa. This is not to say that there are not concerns about sustainability in future, but merely that, over the recent past, communities are able to collect it from communal lands where it grows freely, as has been described above. The regions in which it grows are also amongst the poorest in South Africa.

Micro level challenges in HVAPs and NTFPs

While there are opportunities in HVAPs and NTFPs, there are many challenges facing upstream businesses including small agro-processors. SMMEs in value chains face various challenges that can affect their performance in the market, including, the quality of the product, infrastructure, market access and technology. But broadly, regardless of the nature of the value chain, these concerns pervade SMMEs in the second economy[1] in South Africa. By their informal nature, many lack institutional support and where there is support it is often supply driven or not well targeted (Broembson, 2003).

For the small-scale processors, developing technical capabilities is important but without vertical integration with reliable suppliers and markets they cannot sustainably grow. Other challenges include limited resources, high transaction costs, limited knowledge of the market and relatively weak bargaining power (Morgan, 2006). Community-based natural processing groups in NTFP are constrained by lack of appropriate machinery or technology to undertake processing, lack of skill to do research and development, a lack of funds to establish and maintain processing facilities, lack of packaging material, difficulties in finding markets, limited product development and networking (Ham and Thomas, 2008; Ham and Akinnifesi, 2004.).

[1] Second economy is defined as the informal and micro/small businesses which are largely owned by historically disadvantaged social groups. In contrast, the first economy includes other small business (white-owned), medium and large business.

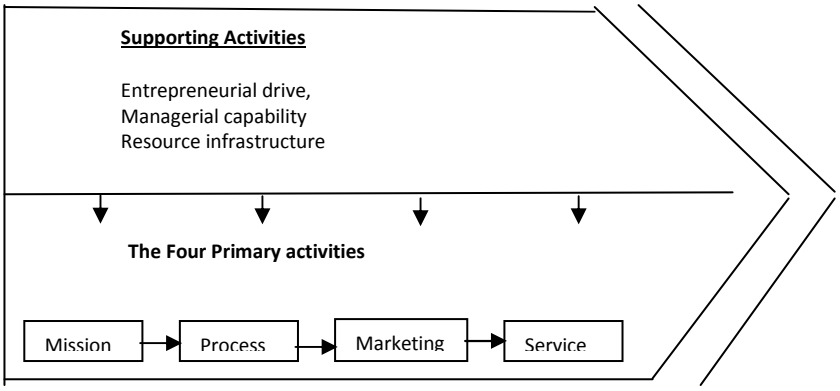
Specialization, such as in processing NTFPs, requires technology support by lead firms. There are also standards that have become required by international customers such as ISO 9000, 'good manufacturing practices' (GMP) and 'good agricultural practices' (GAP). Local firms are put under pressure from the international counterparts and in many cases it is necessary for a lead firm to support smaller local firms in taking the necessary steps. Many businesses in the developing world, typically small businesses, struggle to meet these requirements because of their exorbitant costs (Altenburg, 2007:26).

Thus the opportunities identified in HVAP and NTFPs are balanced by major barriers. Many of natural products[2] pro-poor enterprises have a strong community development focus and this can add to the challenges they face. On the other hand, it means that they are the favourite of donors/development agencies because of their potential impact on the communities they are involved in. This support then raises the concerns of donor dependence and sustainability highlighted above, as ultimately pro-poor enterprises must perform in financial as well as non-financial terms if they are to be genuinely sustainable.

In addition to the factors highlighted by the value chain framework in general, it is also very important to consider the central role played by the entrepreneurial drive, management capability and resource infrastructure in a firm (McLarty, 2005). This issue is of significance when assessing private sector development in the context of donor support because often the need to assist overshadows sustainability issues which are linked to the above factors. Only if the factors 'internal' to the firm, what McLarty terms 'supporting activities' (Figure 2, below) are assessed in conjunction with the value chain framework will it be possible to understand the development challenges and the overall development of the value chain activities.

[2] Natural products in Southern Africa are also referred to as wild, indigenous or non-timber forest products. It consist of all the products from woodland and savannah, other than commercial timber and fuel wood, and includes medicinal, indigenous fruits, edible plants, edible insects, honey, beeswax, exudates and mushrooms.

Figure 2. Key variables in the implementation of SMME value chain activities



Source: Adapted from McLarty, 2005

The importance of such factors is confirmed in a client selection diagnostic framework developed by TechnoServe, a development agency that has been involved in value chain support for forty years (www.technoserve.org). There are three key considerations in their diagnostic framework: business viability; the entrepreneur(s) and the management team; and, of course, the potential impact of the intervention (TechnoServe, 2008). The first two are assessed by collating information in a range of areas, which relate to the value chain framework and the business position, as described in the following table.

Figure 3: TechnoServe client selection diagnostic elements

Viability of a business	Entrepreneur and management
Assets	Ambition/ vision
Technology	Discipline
Supply chain	Commitment
Legal and regulatory environment	Productivity
Product	Innovation
Marketing strategy	Decision-making
Competition	Management system and structure
Pricing strategy	Potential for conflict
Off-take agreements	Salaries and incentives
Substitute products	Skills and training
Profit margin	
Cashflow	
Financial management	
Working capital	

Source: TechnoServe 2008

CHAPTER THREE

RESEARCH METHODOLOGIES

3.1 Introduction

A case study methodology was adopted for this research because it allows for in-depth and focused study of complex questions in a particular setting. As discussed in more detail below in section 3.2, understanding the constraints and challenges in the performance of 'pro-poor' social enterprises requires assessing the context, the business environment and the institutional setting within which such enterprises operate. This depth and breadth of factors lends itself to a case study approach. Section 3.3 then sets out the data collection undertaken to gather the appropriate information. The remainder of the chapter outlines the analytical approach, issues of validity and reliability of the inferences drawn, the significance of the research and the limitations.

3.2 Research approach and design

A case study approach has been adopted to answer the research question because it allows for intensive description and analysis of the social enterprise as an institution, forming the unit of analysis (Merriam, 2002). This allows for an exploratory study of the main issues, set out above, with the main source of data collection of a largely qualitative nature being through in-depth interviews and document analysis. The questions being asked require an approach which can cope with the complexities and subtlety of a real life situation (Denscombe, 2007).

A qualitative method also allows the researcher to use multiple methods and sources as is necessary in data collection. The case study method will help to understand the relationships, cause and effect, and the processes leading to these outcomes at MNP. Not being certain about the exact contributing factors, this approach allows for flexibility in the data collection process as the research evolves.

According to Merriam (2002), a qualitative case study has several characteristics.

1. The researcher seeks to understand situations in their uniqueness as part of a particular context and interaction; this understanding may be an end in itself and not necessarily to predict the future.
2. The researcher is the primary instrument for data and data analysis with the objective of seeking clarity or understanding. This can be done through "verbal and non-verbal communication through processing information, clarifying and summarizing material, checking with respondents for accuracy of interpretation and exploring unusual and unanticipated responses".
3. It is subject to human bias and, to get around possible bias, it is important from the onset to identify and monitor where and how this may affect the data.
4. It is inductive, which means the researcher collects data to develop theories and concepts rather that deductive, whereby the researcher tests a theory or a hypothesis.
5. The research is richly descriptive in words with quotes and excerpts rather than numbers.

A value chain analysis can be very broad and can call for a deep interrogation of actors, supporters and influencers as well as other concepts and methodologies involving subsector analysis, enabling environment, cluster development and local economic development approaches. The scope of this study will be

narrowly defined to look at the actors, supporters and influencers along MNP's production value chain.

3.3 Data collection

Data collection is the collection of various forms of empirical information and the objective is to produce reliable data. Case study research examines a more focused, in-depth study and the main means of data collection includes open-ended and semi-structured interviews, direct observation, focus groups and written documents. This involves compiling a list of questions or items that are assumed to have contributed to the development of the MNP performance, and presenting them to a sample of individuals in an interview situation. To improve the validity of the questions pilots will be developed and tested first.

Mouton (1996) and Yin (2003) caution that most data collection methods on their own have shortcomings and it is important to use multiple methods to overcome these. The principles of data collection (as set out by Yin, 2003) are as follows. First, the researcher should use multiple sources of data to assist with triangulation such as document analysis and interviewing. Second, a chain of evidence should be maintained so that an external observer is able to follow the progress, inductions and deductions made throughout the study. This evidence is important for assessing the reliability of the data collected.

Mouton (1996) warns that social science research is subject to four types of errors, being errors on the part of the researcher, errors associated with the reactions of the participants (people react to research), errors associated with the measuring instrument(s) utilised such as the questionnaires or interview topic guides, and errors associated with factors in the environment. To reduce these errors the researcher must develop the skills to be sensitive to address the reactivity of the respondents, ask good and well-structured questions to aid

interpretation, listen well, be flexible and responsive to the situation and, as far as possible, remain objective (Yin, 1994).

3.3.1 Primary data

Semi-structured and unstructured in-depth interviews were utilised for this research because the research questions required soliciting the opinions and experiences of business development practitioners and donors about the key issues, as well as understanding the issues of the enterprise's development from different standpoints in the value chain, and from different positions within the enterprise. Based on preliminary contacts and the work of other researchers (led by Philip, 2006) it was clear that there were complexities and sensitivities around the way MNP has been run that has contributed to its poor performance.

While interviews may appear to be an easier method for many researchers, this method cannot be over-simplified as it involves the important skill and ability to conduct a conversation. It requires a set of assumptions about, and understanding of the situations which are not normally associated with a casual conversation (Bell, 2006). To formalise the interviews, the research ethics require that there is prior disclosure of consent from the respondents that the conversations will be used as material for the research. The researcher cannot therefore secretly record conversations or use casual conversations as research data. Unless the interviewee stipulates that they want to remain anonymous, the interview will be treated as 'on the record' and 'for the record' (Denscombe, 2007). The researcher is also cautioned to be professional in that there must be disclosure of the agenda and, to avoid the danger associated with being too casual, the researcher must plan and prepare adequately for interviews and conduct the interview with the necessary sensitivity required. Key informants interviewed included members of the board, the chief executive officer of the Mineworkers Development Agency, former and current managers of MNP, input

suppliers, MNP processors, marketers, other processors and potential competitors, buyers and other business associates. When the purpose of the interviews (Masters Research) was explained to the respondents, they made no objections to their names being disclosed. Through these interviews data and information were obtained on the key issues related to the challenges of commercializing indigenous plant products, how these challenges were interpreted and addressed to put the enterprise on a more sustainable footing, and the contributing factors to the outcomes observed.

The primary data collected therefore included:

- Documentary evidence on the institutional arrangements and performance of MNP in financial and non-financial terms. This included:
  - The outcome of its social intervention agenda of employment and wealth creation, networks such as donors who have supported it.
  - Quantitative information on the performance of MNP in terms of productivity and profitability, that is, revenue, costs, investment, employment, marketing expenses, and productivity indicators.
- In-depth interviews with members of the enterprise, participants in the value chain including the suppliers of the main inputs (who are also community members and beneficiaries), business consultants, and customers.

3.3.2 Secondary data

This is a set of documentary evidence or information compiled by others which has been based on data already collected. The researcher used MNP previous proposals and strategic documents, documentation from TechnoServe (the business consultants responsible for MNP's turnaround strategy), the one annual report that MNP produced in 2004 and documentation prepared by donors, including the DfID employee seconded to MNP in its early years (Susan Barton).

3.3.3 Sampling

In determining validity of research, selection of appropriate sampling is critical. Qualitative research is in the main discovery-led and tends to be more flexible in terms of the sample and sample size. This feature makes it appropriate to use a non-probability sampling method such as purposive and snow balling sampling. In a case study situation, the researcher often knows something about the specific people or events in the particular setting. The sample emerges as a sequence of decisions based on the outcome of earlier stages of the research (Denscomb, 2007).

3.4 Data Analysis

Data analysis involves searching for the substance and essence in the data to address the research question. Once data is collected, it needs processing to extract meaning. Data processing has two phases: data reduction, where quantitative and qualitative data are summarised; and data analysis, where data is sorted into themes so that the content can be analysed. This is followed by synthesis which involves interpretation and explanation of the data (Mouton, 1996).

There are five stages to qualitative data analysis, namely preparation, familiarity, interpretation, verification and representation (Denscomb, 2007). Preparation includes backing up copies of all original material, all material should be collated and organised in compatible format, data should be collated in such a way that researcher's notes and comments can be added to it later and each piece of raw data should be identified with a unique serial number for reference. Familiarity means reading and rereading the data to identify the appropriate codes to apply to the data. Interpretation involves coding the data, categorizing the codes and themes, identifying the relationships among the themes and categories, and

applying concepts to analyse the data and arrive at generalised statements. The mode of data analysis for this case study will be qualitative and, as such, the overall coherence and meaning of the data is more important than the specific meaning of its parts (Mouton, 1996).

It is important that data is sorted or categorised as the research progresses. Collected data will be read, reread and codified. The recordings and interview transcripts will be analysed inductively for key points and themes relating to the research questions. It is important that one is vigilant and checks, verifies, tests, confirms and probes simultaneously as the data is collected, rather than at the end, to allow for further inquiry into important questions and unexpected patterns (Merriam, 1998). Interviews tend to produce non-standard responses and interviews have a relatively open format, but the data can be categorised into major themes.

3.5 Validity and reliability

Validity and reliability are important tests for social science research like qualitative case studies. Mouton (1996: 143) explains research validity as the extent to which the qualitative elements and the stages of the research such as the conceptualisation, operationalisation, sampling data collection, analysis and interpretation can be said to be thorough enough to produce more or less truthful outcomes. Validity includes the statement or collection of statements, data, theories and research methods used. Major sources of errors include vagueness, poor sampling, bias, incomplete sampling frame, interview bias and competing conclusions. It is important that appropriate steps are taken at each stage of the research to reduce errors. For example, when collecting data it is important to ensure that multiple sources of data are used (that is, triangulation) (Mouton, 1996:157). This case study used interviews and document analysis from a wide range of sources to improve validity. This is important in a case

study such this one, where events and major sources of data are investigated through interviews, meaning that it is necessary to cross-check information from other sources (people, documents) because interview data is subject to personal bias and memory decay. Reliability is the requirement that the application of a valid measuring instrument when applied to a different group under different circumstances will still produce the same outcome.

Interviews can improve the validity of the data collected because direct contact with interviewees means one is able to check for accuracy and relevance of the information. However, data from interviews have several concerns, mainly reactivity, that is, data is based on what people say rather than what they do and the two may 'not tally'. Furthermore, people's reactions to interviews are subjective, depending on the impact and experience of the interviewer and the context. Consistency and objectivity are thus not easily achieved (Denscomb, 2007: 184).

Yin (2003: 34) discusses four tests that improve the validity and reliability of a case study. First is construct validity through establishing correct operational measures for the concepts under study, in a case study ensuring multiple sources of data. Second is internal validity through ensuring robust inferences regarding causal relationships. Third, external validity requires establishing the parameters in which the finding of a study can be generalized. Case studies unlike survey research do not work on representative samples, so generalisation is restricted from a statistical point of view. However, from an analytical perspective, data may be generalized to a broader theory to ensure validity. Lastly, reliability is the ability to show that the operations of the study such as data collection procedures will, if repeated, yield the same results.

To address these concerns, multiple data sources were used. Data was also cross-checked with multiple interviewees and documentary sources. Twelve

major actors in MNP's value chain were interviewed to get different perspectives of the business including management, technology/ product development, input supply dynamics and market access. From the management, production and input supply perspectives, there was broad consultation with various stakeholders, current and former employees, shareholders and board members, as indicated in the interview list. Likewise from the market access perspective, interviews were conducted with management as well as buyers and retailers. This was further cross-checked against the primary and secondary documentary sources described above.

3.6 Significance of the research

Successful enterprise development in rural areas is important to reduce poverty and unemployment. There is increasing demand in the local and global market for natural and organic plant products, many of which are found or can be grown in rural areas. Developing and commercializing indigenous plant products therefore present an opportunity for rural economic development but the practice is fraught with difficulties and many challenges, with many interventions having floundered in these settings.

Notwithstanding, gaining an understanding of the challenges of pilot social enterprises like MNP, is invaluable because of their potential to reduce poverty. In this regard, when successful, these enterprises can be scaled up and replicated to change the lives of a significant majority. Thus, understanding the challenges that lie ahead can better prepare one for future interventions. For example, many NFTP interventions start with supply of the product without an idea of the potential market but with these insights, the two can be pursued simultaneously. Moreover, it allows one to pursue avenues for their continuous improvement.

3.7 Limitations

A case study, while useful in its own right, has the limitation that it is contextual, producing an extensive description of a social phenomenon in a specific context (Denscomb, 2007: 45). A limitation with this case study is that the sample of respondents selected is purposeful and the lessons drawn are specific to the case study.

Boundaries of the case study were difficult to define and deciding on what to include and exclude was a challenge (Denscomb, 2007: 36). Moreover, due to limited time, the researcher was unable to engage fully with the community or the beneficiaries for which the business was set up. Engagement was limited to the employee (also a community member) responsible for the collection, and to the chairperson of the Trust representing the beneficiaries. While it is unfortunate that there was not more engagement with community members, the primary focus of the research was on the enterprise and on the value chain dynamics.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

To understand the performance of MNP, as a case study of a donor-supported 'pro-poor' enterprise, it is necessary to analyse the business realities of the activities it is engaged in. The value chain framework is utilized to assess the key constraints and challenges that MNP has faced. To understand the constraints and challenges from the perspective of the interventions further requires assessing the nature of the business, including its governance, and the types of support provided. This draws on the literature on private sector-led development and social enterprises, the role of donor intervention and the provision of business development services reviewed in chapter two.

To assess and understand MNP's performance, and the value chain framework as covered in the literature, requires identifying the components or the units of the analysis such as market access, technology/product development, management, policy/regulations, finance, infrastructure and membership organization as discussed in the literature review. Also, as MNP started in 1998, it is important to situate the analysis of the above elements within a specific time frame. For this, the development of the business is distinguished as three stages. Thus, elements in the value chain, such as inputs and markets, are examined according to the stages in the development of the business in section 4.2, and the groups of constraints are identified according to these stages. This lays the foundation for the more detailed analysis of the development of the business in section 4.3 which draws on the value chain framework as an analytical tool together with literature addressing the challenges that small and medium enterprises face.

MNP is then analysed as a case study of donor support for private sector development. Most of MNP's founding capital came from donors whose expectation was for income generation for the community of 4 000 women. It is unlike a business initiated by an entrepreneur who sees an opportunity and puts together capital and other resources to exploit it. MNP was established by an NGO that identified the opportunity and found capital by way of donor funding to exploit it. The case study provides critical insights into the ways in which donor support has operated and the pitfalls thereof, drawing on the relevant literature.

4.2 Review of development of MNP

Marula Natural Products was founded as a job creation intervention for a community whose main livelihood source had become that of remittances from fathers who left home to work for the mines. MNP is based in Bushbuckridge in the Bohlabela District Municipality of Limpopo and the area is characterized by high unemployment, dependency and poverty rates. MNPs operations impact on about 20 per cent of the 193 settlements, comprising 42 villages that collect the fruits and crack kernels for MNP (MNP Annual Report, 2004). It is owned by the MDA and the Marula Trust, having seventy per cent and thirty per cent shareholding respectively.

As previously explained, job-shedding in the 1970s and 1980s left these communities ravaged by poverty, having become dependent on the mine remittances. The National Union of Mineworkers (NUM) began to explore co-operatives as a way of achieving economic livelihoods for ex-miners. In 1995 co-operative projects were abandoned in favour of a:

> 'new form of development organising, as well as a new form of economic co-operation that arose when the initiative was placed clearly in the hands of ex-miners and their communities, without the

somewhat prescriptive paradigm of co-op development to delimit the options' (Philip, 2006).

The non-profit entity MDA was established with a non-profit board of directors who mainly came from NUM. Their mandate was to set up Development Centres that would deliver social and economic outcomes for mine-sending labour areas and later mining towns. The Development Centres carried out economic services, training and counselling and provided assistance in accessing external markets. The economic development services focus was on micro and small enterprise promotion for sustainable livelihoods (Philip, 2006: 134-135). The aim was to train young entrepreneurs and provide them with ongoing support through the 'economic services', commonly referred to as business development support services. The entities were to be run as viable business units to stimulate and enhance local enterprise activities. This market development approach lends itself to exploring and understanding the ways of maximizing value through targeting local or external markets.

While this approach was being pursued, the Development Centre at Mhala in Bushbuckridge identified the opportunity to begin the commercial processing of the local indigenous marula fruit. Indigenous plant products such as marula are referred to as non-timber forestry products (NFTP). NFTPs are defined as tangible and physical objects of biological origin (that is, excluding mineral, services and forestry benefits (Robinson and Pfund, 2005)). The concept of NFTP depends on the interest and priorities of the enquirer but it has conservation and, in the case of marula, a strong cultural aspect, as well as commercial value in the areas in which they are found.

The Marula Trust

The Marula Trust was established in 2003 to protect the indigenous intellectual property of the marula belt communities through grants from the Kellogg Foundation and the Ford Foundation. It was also established to ensure that the benefits of marula commercialization are passed on to the communities in ways that are fair and equitable. It is legally registered in South Africa as a trust. The Marula Trust is meant to assist in mobilizing and organizing primary collectors, building community buy-in, and ensuring stakeholder involvement in decision-making and profit-sharing.

The Trust is also meant to channel profits derived from its share in the business to the community, as well as to hold the brand names and receive royalties from these (MNP, 2004). Given the weak commercial performance of MNP to date, the Trust added a further layer of governance arrangements and generated expectations in the community before these could be met.[3]

Three stages can be identified in the development of Marula Natural Products from this time. The first phase was the establishment of the enterprises in a manner typical of a development 'project'. The second phase was of moving to a more commercial orientation, with very mixed results and continuing high levels of donor support. The third (and ongoing) phase is of implementing a turnaround strategy given the weaknesses evident upon the withdrawal of donor funding. Each phase is now described in more detail.

4.2.1 The pre-commercialisation or 'project' phase, 1997— 2002

With funding support from DfID, in 1998 the MDA began product exploration. This started with the only product which was already known, that of traditional marula beer, and techniques for its stabilization in 1998. A pre-feasibility study of

[3] Interviews with G. Njoni, 19 October 2008, and S. Ndwandwe, 11 November 2008.

a marula brewing facility was completed in 1999 and work on building a brewing facility was started in the same year (MNP, 2004). In 2000 the brewing facility was completed at Mhala Development Centre, while CSIR researchers developed a sweetened, carbonated marula cider to be called Vuka.

With the help of CSIR, the marula nut was pulped, stabilised and later brewed, bottled and sold to the NUM mining beer halls. This target market expectation of the beer did not meet the original home brew and it was more pricy than the other commercial brews such as Castle. The upmarket tourist market was explored for the beer to be sold together with the nut as an accompanying snack through the game lodges nearby but the testing on the nut showed it was carcinogenic; the beer was also not well-received.

In 2001, wider product development and exploration was undertaken alongside the marula beverages, except for alcoholic drinks, because DfID policy precludes alcohol production.[4] It was discovered that another NGO, Marulanet, was running similar trials with marula elsewhere in the region (Namibia, Botswana and Zimbabwe) and that the oil could be more valuable. Through the support of yet another NGO, Phytotrade, a research study was commissioned on the oil. It was seen as having attractive properties as a cosmetic ingredient. The natural cosmetic product market was growing through pioneers such as the Body Shop. Marula oil was attractive as it was naturally processed and had the appropriate properties. Three tonnes of oil was produced (Philip, 2006; MNP, 2004). Other products were also being explored, including marula soap, marula nectar and marula jelly.

The staff grew significantly under a DfID Project Manager, together with a Product Development Manager, Product Development Officer and Community Liaison Officer. Communities were organized into committees in 42 villages.

[4] Interview with G. Njoni, 19 October 2008.

4.2.2 The 'commercialisation' phase 2002-2006

The main donor, DfID, withdrew from MDA in 2002 because of a change in focus to fund sector level work 'making markets work for the poor', and would no longer fund organizations directly. This caused MDA to cut back staff from 120 to 15,[5] naturally affecting MNP. MDA was later rescued by the National Development Agency (NDA), which continues to fund it.

However, a new core donor, the Kellogg Foundation, soon became involved with MNP and identified that the project needed to be placed on a more commercial footing. Despite the challenges of the previous donor support, the project phase had resulted in a potentially viable enterprise. Thus, on the back of the first sales of oil of 3 tonnes in 2001 (0.5 kg to local buyers and 2.5 tonnes to Statfold Seeds in the UK) (MNP, 2004), and the various product development activities, Marula Natural Products was established as a company in 2002, to commercialise production from the indigenous natural resource. It was formally launched in June 2002 by the then Minister of Water Affairs and Forestry, Mr Ronnie Kasrils, whose Department had provided pilot funding together with other organizations including the National Empowerment Fund (NEF) and the Industrial Development Corporation (IDC). The Premier of Limpopo Province was also present at the launch. It must be noted that MNP was seen as having the potential to successfully address the high levels of poverty in the area and enjoyed much political support.[6]

The years 2002 and 2003 were a period of further ambitious market and product development activity (MNP Annual Report, 2004). The emphasis on the ethical production/cost of custody and fair trade niche was central, with links being

[5] Interview with G. Njoni, 19 October 2008.
[6] Interview with James Loumas 21 Nov 2008.

made with fair trade marketing organizations. Four tonnes of oil was produced and refined in 2002 for market development.

Pursuit of diversified high value products continued, with local and export market opportunities being targeted in 2004 for fruit juice, alcoholic beverages, oil for the food industry, and oil for the cosmetic industry. This was coupled with plans to continue innovation through partnerships with research and technology institutions including the CSIR and universities, although this was restricted by funding.[7] Significant effort was also put into working for standards and accreditation, including chemical analysis, organic and fair trade certifications which had to accompany every batch of oil (MNP, 2004).[8]

The growth of oil production was achieved through the progression from manual oil pressing systems to hydraulic oil processing in 2006. This increased the kernel oil yield from 17 per cent to 29 per cent, increasing further to 33 per cent by the end of 2008.[9] The improved yields had a major influence on the profitability of the oil production units. Production of oil doubled from 3 tonnes in 2001 to 6 tonnes in 2006 (MNP, 2004).

The focus on high end niche markets for oil, both export and local, required quality assurance involving sending samples from each batch to Gauteng and later Durban.[10] Donor funding supported a supply-driven approach oriented to the production side, while weak attention to markets and demand meant MNP accumulated a stockpile of oil, and accounted for an estimated 67 per cent of the world market of marula oil. It then had to embark in 2005 and 2006 on market and business strategies for its production. MNP also embarked on a cosmetic range consisting of hand cream, tissue oil and soap but, after much trouble and

[7] Interview with G. Njoni, 19 October 2008.
[8] Interview with G. Njoni, 19 October 2008.
[9] Interview with A. Mambane, 20 November 2008.
[10] Interview with G. Njoni, 19 October 2008.

cost to meet minimum quantity production requirements and marketing efforts, results were dismal and production was discontinued.

Dealing with donor expectations and changes in appetite was also challenging. Firstly, donors tend to avoid supporting research and development (R&D) which is an important part of natural products commercialization, as there are no deliverables and any budget allocation to this is a fraction of what is required, meaning other sources of funding are required over the years to continue the work on R&D.[11] DfID covered salaries, travelling and raw materials to conduct the trials and other sources of funding had to be found to meet R&D shortfalls. Ford Foundation funded specific activities, the Department of Water Affairs and Forestry (DWAF), IDC and NEF all participated and eventually, Kellogg funded organizational development overheads and management.

For the production of the fruit into pulp, plenty of storage space is required, suitable to maintain the correct temperatures and free of contamination. All processed products must undergo quality assurance analysis and certification for the cost of custody such as fair trade and organic certification, which are quite rigorous and time-consuming.[12] This is more important than having the agricultural product itself (Cramer, 1999a; Altenburg, 2007: 26).

Market access was also challenging. Eventually a cosmetic wholesale buyer, Arch Personal Care was identified after many avenues were pursued to sell the oils directly to market in order to achieve retail prices which are between 3 to 4 times the wholesale price, but without success. Most companies will not deal with MNP directly as they prefer the refined oil as opposed to MNPs crude oil because it has a longer shelf life and is contamination-free.

[11] Interview with G. Njoni, 19 October 2008.
[12] Interview with G. Njoni, 19 October 2008.

Similarly, the management systems were focused on setting up information systems, financial systems and a website for selling the products, for which funding was available as infrastructure, while market development lagged behind. The demands of identifying markets, the onerous annual certifications, managing a complex supply chain with many personal dynamics, managing the production process, and working within a dilapidated infrastructure, all meant that MNP had become moribund.

The Product Development Officer, Girlie Njoni, was appointed as Operations Manager in 2002 and then overall MNP manager in 2003, taking over from the DfID Project Manager. She continued to run MNP until 2006 when the main donor again terminated its support, leading to uncertainty about the future of MNP once more. However, due to the nature of her relationship with MDA and MNP, she continued to provide ad hoc support on a pro bono basis as and when she could, including paying wages and negotiating for overdrafts.[13]

4.2.3 The 'turnaround' phase, 2006 — 2008

Rural women form the backbone of MNP's enterprise through their involvement in the provision of fruit during the three month harvest period, and marula kernels throughout the year. From 2006, MNP sustained approximately 107 full-time jobs, while approximately 600 part-time workers, mainly women, were engaged in kernel production.

With this motivation, yet another donor, USAID, came to MDA's rescue, believing that MNP with its focus on community development was still relevant and could facilitate and serve the needs of rural women through the commercialization of marula products. The change also brought an international non-profit development organization that provides technical assistance, TechnoServe, through funding from the Business Trust.

[13] Interview with G. Njoni, 19 October 2008.

TechnoServe set up office in South Africa in 2004 to do the work of assisting entrepreneurs and businesses based in rural areas to grow. In 2006 TechnoServe, whose South African head office is in Johannesburg, established a satellite office in the Bushbuckridge area, commissioned by the Business Trust to identify, launch and assist specific businesses. The overall goal was to alleviate rural poverty, create employment, develop local skills and knowledge, and spur economic growth in the Maruleng and Bushbuckridge regions. TechnoServe was mandated to assist between ten to fifteen businesses over four years, and split its support equally between start-up ventures and existing businesses. It was hoped that the programme would help catalyse local economic development in the identified poverty node and, in doing so, test and prove a replicable and sustainable approach to establishing and growing rural SMMEs owned and managed by historically disadvantaged South Africans.[14]

Under the mandate, MDA with USAID funding and TechnoServe, with Business Trust's support, embarked on a programme to 'turnaround' the MNP business. In 2006 the MDA signed a three year contract with TechnoServe on behalf of MNP that will see the provision of business development consulting services to the company, including technical assistance and mentorship. A new General Manager, James Loumas, was also appointed to take over Girlie Njoni's duties.

TechnoServe's diagnosis identified several key elements required for MNP to succeed as a business rather than a donor-funded project. The major starting point was an evaluation of which of the several different activities that MNP was engaged in held more commercial potential. MNP was engaged in pulping the fruit (and had been involved in beer brewing), extracting the crude marula oil through pressing, and making cosmetics from the oil. Of these, TechnoServe identified that a focus on crude oil extraction had most potential. This was a

[14] TechnoServe and Marula by Paul Applegarth, *Fellow of the German Marshall Fund and former CEO of the Millennium Challenge Corporation.*

significant change from the previous strategic emphasis of MNP efforts on trying to capture greater value associated with branding and specialist products, to a focus on core business and simply improving operations and productivity.

The improved productivity was aimed to increase throughput, reduce costs, and improve revenues.[15] As reflected in the proposal by TechnoServe to secure USAID funding in 2006, the core aim was to sustain the full-time employment level of 2006 of 107 people, but also to increase overall production to improve the commercial performance and wages, which would in turn support further expansion of output, employment and returns to the community. The objectives were set out as follows:

2006	107 full time employment	Harvesting 206t fruit; selling 4.2t oil
2007	107 full time employment (at incomes meeting min wage)	Harvesting 300t fruit; selling 12t oil
2008	160 full time employment	Harvesting 450t fruit; selling 18t oil
2009	214 full time employment	Harvesting 600t fruit; selling 24t oil

Source: TechnoServe, 2006

Central to this strategy was also to address the severe management constraints that MNP faced, with management being provided by the MDA on a temporary basis. Better management was necessary to manage the operations, including rigorous cash flow management to avert difficulties in the period from December to March when kernel supply diminishes to a trickle and oil production and sales also slow down. It was also necessary to implement the turnaround plan. To achieve sustainable improved management, TechnoServe and the MDA

[15] See 'Turning Around MNP', Technoserve, 9 October 2006.

collaborated actively around this, resulting in the first break-even results being achieved in its ten year history in 2007.[16]

The 10 point turnaround plan comprised the following key steps (Business Trust, 2007):

1. Increase cracking productivity
2. Improve the extraction rate
3. Secure contracts for oil
4. Secure contracts for fruit and nuts
5. Expand fruit and nuts collection schemes
6. Lower fixed costs
7. Redesign organization and ownership structure
8. Venture into oil beneficiation
9. Maximise value of oil cake and oil (including blending)
10. Initiate beneficiation of marula fruit and shells.

Once these steps had been achieved, TechnoServe then planned to replicate and expand the model.

The focus on the main steps is under three main headings, corresponding with vertical stages in the value chain (Kaplinsky and Morris, 2000), namely, better input supplies, productivity in cracking and maximising oil extraction, and improved revenues from better marketing. Underpinning this is the potential for the oil for cosmetic applications as a market, although MNP focuses on crude oil production.

Better input supplies

Three avenues have been pursued for better input supplies:

[16] Interviews with Philip Van Rooyen and Sifiso Ndwandwe 11 Nov 2008.

a. Securing a regular supply of nuts has been difficult because the MNP's main source of nuts which is from the community cannot meet MNP's current needs. Most households secure enough fruit in the marula season to make the local beer then crack the nuts as a 'time filler' in the midst of other activities like household chores and farming.[17] The incentive or the opportunity cost does not seem to be high enough to motivate the communities to store or do more. Besides, storage of the whole fruit is a problem, resulting in rotting if the fruit is not taken off. There are no storage facilities to store the pulp, to make the pulping worthwhile. The cracking of the nuts is also a slow laborious process, paying less than current minimum wage. Alternative sources of nuts were explored. Bronpro is a fruit processing company in Nelspruit, which buys fruit collected by MNP and processes marula pulp for sale to Ceres. Under a contract with MNP which ran from 2003-2006,[18] the nuts after the pulping were then returned by Bronpro for cracking and the kernels collected for pressing by MNP. However, the Bronpro process involves high levels of heat and the nuts are not left 'clean'; they retain a lot of fruit on them, which tends to make them rot and has therefore not proved a successful means for expanding nut supplies.[19]

b. MNP negotiated with Mirma, a company producing marula pulp in Phalaborwa for the Amarula liqueur produced by Distell, to receive the excess raw nuts from their pulping process. These nuts were also distributed to the communities for cracking in the traditional manner. This arrangement broke down after operating in 2006 and 2007.[20] Mirma has been pulping marula for nearly 18 years[21]and for many years disposed of the nuts as a waste product. Thys Slabbert, an engineer and a

[17] Interview with Sifiso Ndwandwe 28 Nov 2008.
[18] Interview with Agnes Mahlakoane.
[19] Interviews with Agnes Mahlakoane, Girlie Njoni, James Loumas.
[20] Interview with Aaron Mambane.
[21] Interview with Thys Slabbert 21 Nov 2008.

director at Mirma, registered Limpopo Marula Products (LMP) in 2003 with his business partner Ben Botha, a chemist, to dispose of the marula waste and to use the oversupply that Mirma could not absorb in the marula season to conduct research and product exploration.[22] They have a marula juice on the market and other products for which they sought potential investors (BEE) to start factories to manufacture.[23] They are working on producing the marula oil but the product is not perfect yet.

c. Kernel supply from the communities can be increased as there is huge potential for further fruit collection given the total marula yields. While this has been pursued such as through radio announcements, this has not been very successful relative to the requirements. There are many issues related to the amounts paid and the delay in making payments, as well as the MNP management of the procurement. When MNP started, a lot of work was done to generate enthusiasm in the community to bring in the fruit and the kernel, but over the years and amid the transition MNP's communication has been weak.[24] The supply chain officer who claims to be a leader in the community alleges the relationship with the community has broken down because of the caretaker manager.[25] It should also be noted that MNP competes with other private companies such as Mirma and LMP who pay people on delivery, while MNP pays after two months. Following *imbizos* with the villages to re-establish the communication and address issues that affect them, the payment has been increased in 2008.

Despite these different avenues, the performance in terms of procurement has been very poor and has been the main constraint on oil production only

[22] Ben Botha and Thys Slabbert 21 Nov 2008.
[23] Interview with Ben Botha and Thys Slabbert 21 Nov 2008.
[24] Interview with Sifiso Ndwandwe 28 Nov 2008.
[25] Brief interview with Roger Mkhari 21 Nov 2008.

increasing to 6 tonnes per annum. I return to these issues in more detail in sections 4.3 and 4.4 below.

Productivity in cracking and efficiency in oil extraction

A key part of the TechnoServe plan was partial mechanization to increase the labour cracking productivity fourfold, from 0.5kg of kernels per person per day, to around 2kg of kernels per person per day. This would enable higher wages to be paid. The 'new breakthrough in cracking technology' was meant to ensure the marula crackers earned at least a minimum daily wage (which currently stands at around R40.35 a day). Marula crackers have been cracking the marula nuts manually which is a slow laborious procedure.

TechnoServe paid for a consultant to identify an efficient nut-cracking technique and a cracking machine was developed. However, the new equipment is designed for use in a factory environment, including requiring a lot of water for its operation.[26] In the environment at MNP the equipment is cumbersome to use and it is currently a 'white elephant'. Hence the nuts are still being cracked by hand. The overall production is not in fact affected as there is a shortage of nuts due to problems with the sourcing/collection of nuts as described above.

The oil extraction rate from the kernels yielded by the cracked nuts has been improved through the introduction of hydraulic pressers since 2006, which replaced the original manual system and allowed the extraction rate to improve from 17 per cent to 28 per cent in 2007. This has been further improved to nearly 33 per cent during 2008.[27]

[26] Interview with P. Van Rooyen.
[27] Interview with Aron Mambane.

Improved revenues and markets

As noted above, in the earlier periods, donor funding had supported production, with little attention given to marketing.[28] Given the availability of donor funding, MNP had a surplus of oil in 2003 with no off-take agreement, and therefore production was slowed and kernel sourcing was halted. MNP showed symptoms of 'desperate' marketers and Arch Personal Care was approached to assist them. It started to develop markets for the products which took time.[29] With the earlier communication to slow down production and the resulting halt on kernel purchases, the supply chain production had slowed so much that by the time APC had developed momentum for demand, MNP could not supply. This time lag in production and communication appears to continue to affect MNP.[30]

In line with the expected improvements in throughput and productivity, TechnoServe then made a considerable effort to identify markets and negotiate for improved prices. Market demand for as much as 18 tonnes of oil had been identified for the expected 2008 production, with three main buyers.[31] This was related to a key part of TechnoServe's strategy being to negotiate better prices and terms by having different customers to increase MNP's bargaining power. MNP was successful in negotiating a price increase coupled with dollar-based pricing with Arch Personal Care who undertook to take the majority of MNP's supply for 2007. The price was then increased by 41 per cent for 2008. Key to these negotiations was understanding the nature of the demand, and the prices that were being charged for refined oil.

Leadership and organization

Throughout the turnaround phase there has been a series of problems related to leadership and management.

[28] Interview with S. Vermeulen, 28 August 2008.
[29] Interview with Shani Vermeulen, 28 August 2008.
[30] Sifiso Ndwandwe and Girlie Njoni.
[31] Interview with P. Van Rooyen, 11 November 2008.

This was associated with decisions taken by the two successive managers seconded by MDA and driving the turnaround. James Loumas focused on improving nut supply. This included exploring supply from Namibia and sourcing locally from increased collection and from other companies. The Namibian option was thwarted by an export ban on marula kernels. Increased local sourcing was attempted by negotiating an arrangement with Thys Slabbert of Mirma and LMP who pulp large quantities of fruit for sale to Distell to make the well-known Amarula liquor. The nuts are a by-product of this processing. Problems with storage, transport and payment bedevilled this arrangement.[32]

At the same time, the focus on improved throughput and production efficiencies also underpinned Loumas' plan to move MNP to Johannesburg so that it could be housed in more 'hygienic conditions' and a better managed factory.[33] As Loumas acknowledged, this attempted move was a complete debacle and led to his reprimand by the Marula Trust chairman Mr Mboweni, who had threatened to resign had he pursued his idea.[34] Loumas has also declined to administer the Trust as he did not believe it would have appropriate priorities. Compounding the divergence over the focus and priorities of MNP was Loumas remaining based in Gauteng and commuting to Bushbuckridge, because MDA could not guarantee a renewal of his contract.

In 2007 Loumas was replaced by Philip Van Rooyen, a technical man and an employee of MDA, formerly with their Rotech division.[35] Van Rooyen's business principles were explicitly focused on simply managing cost, production and sales. This is a formula also adopted by Aaron Mambane, the current operations manager and a protégée of Van Rooyen (as repeated over and over in Mambane's interview as simply the winning formula to manage MNP

[32] Interview with J. Loumas, 21 November 2008.
[33] Interview with J. Loumas 21 Nov 2008.
[34] Interview with Mr Mboweni 20 Nov 2008.
[35] Interviews with A. Mambane and Thandi Hlatswayo 20 Nov 2008.

successfully).[36] Van Rooyen continued to pursue the arrangements with Slabbert and LMP/Mirma, proposing together with TechnoServe that a partnership or joint venture type arrangement be formed between MNP and LMP/Mirma under which LMP/Mirma would take overall management control, while MNP retains a focus on oil production. While this is partly motivated by the concern that LMP/Mirma may otherwise go into competition with MNP in local oil pressing,[37] the MNP board appears keen to pursue marula product beneficiation because marula oil will only provide subsistence livelihoods for its beneficiaries while the perception is that greater returns are to be had from controlling further beneficiation and marketing.[38] Tension over objectives was also compounded by Van Rooyen becoming a half-time employee of TechnoServe, creating confusion with the board as to allegiances and lines of accountability.[39] This tension as well as poor communication appears to have stalled some of the decision making around TechnoServe's latest recommendations to MNP.

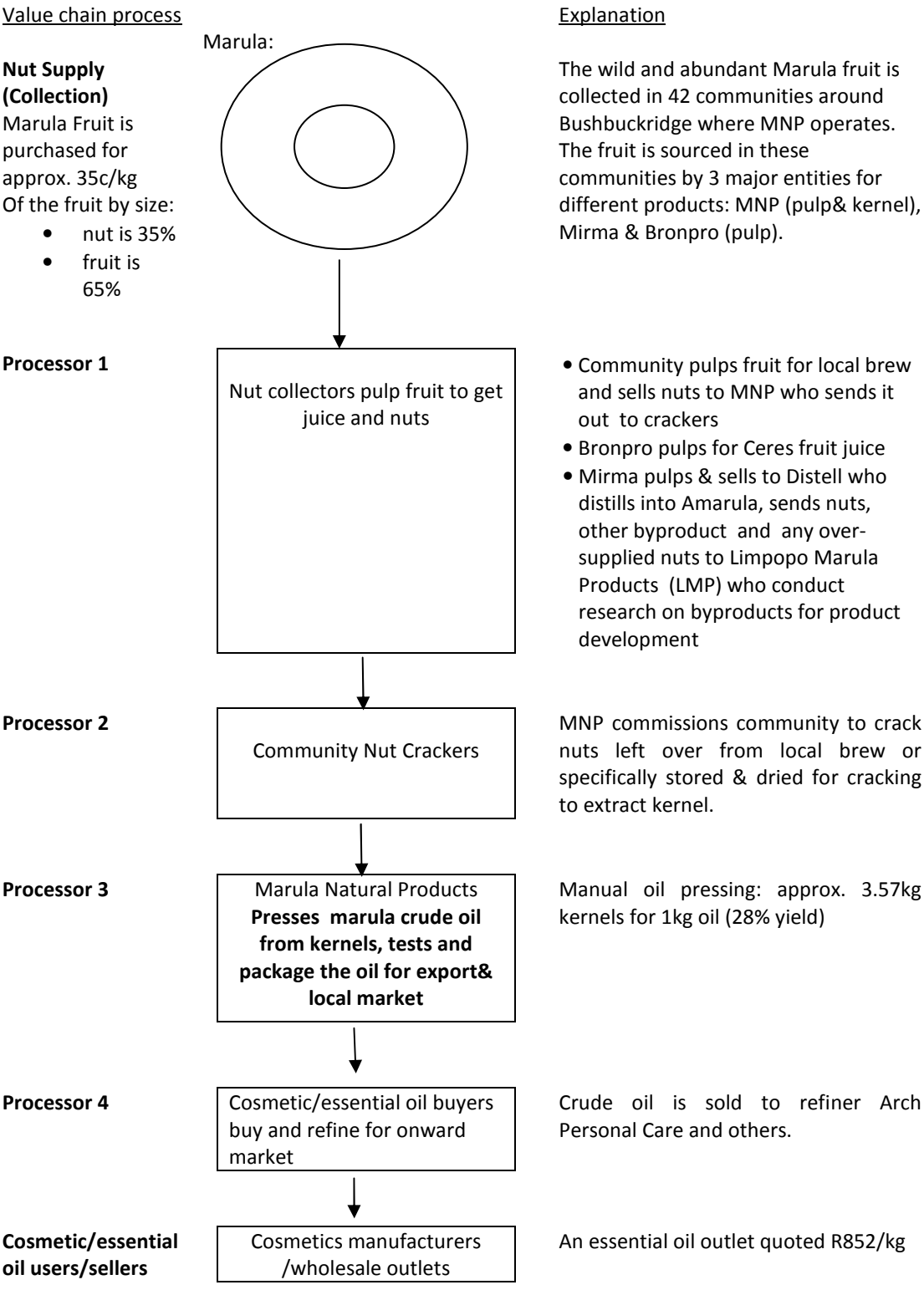
[36] Interview with A. Mambane, 20 November 2008.
[37] Interview with P. Van Rooyen, 11 November 2008.
[38] Interview with Gibson Nkuna 20 Nov 2008.
[39] Interview with Sifiso Ndwandwe 28 Nov 2008.

4.3 Analysis of the business and the value chain dynamics

4.3.1 Overview of the marula oil value chain structure

The marula value chain is composed of a successive set of stages of processing and value addition (Figure 3). As discussed above, both the pulp and the nut can be processed, although the value chain mapped here focuses on the processing of the nuts. There are thus important linkages with the fruit processing - the nut is cracked to obtain the kernel, and the relationships with the fruit processors are important to the marula oil value chain in providing a source of the nuts. This is the case whether the fruit is processed in the community for local brew or whether the fruit is processed in the larger scale commercial operation supplying the production of Amarula. In either case, the collection of the fruit is a key value chain linkage and, as such, the way in which it is organized in the community and the incentives have a bearing on the availability and cost of obtaining nuts for processing into oil (Lusby and Panlibuton, 2007: 19).

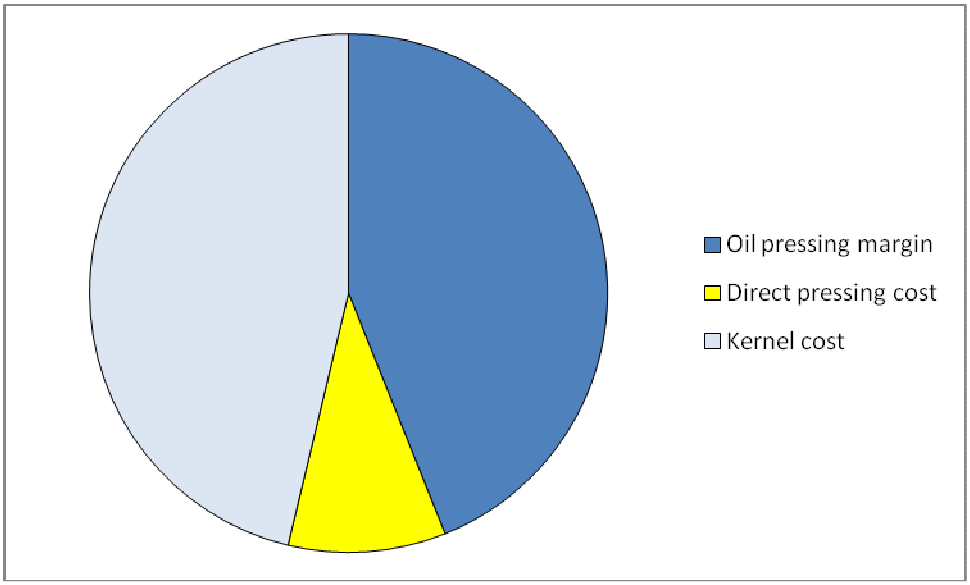
Figure 3. Marula Value Chain, 2008 (vertical linkages & end markets)



Source: Information gathered from Phillip Van Rooyen - Business advisor to MNP

Based on the yields of the oil from the kernels at 28 per cent, 2.57kg of kernels are required for 1kg of crude oil. As reflected in Figure 4, below, the cost of the kernels to MNP is approximately 46 per cent of the crude oil selling price obtained by MNP, with most of this reflecting the payments made to the crackers of the nuts, plus a small collection administration cost. The costs of the kernels also reflect the increased payments offered for kernels to both the crackers and the co-ordinators in response to the shortage of kernels which has been a bottleneck on the operation. The higher costs paid for kernels have more recently been further compensated by the improved yields from the oil pressing which have increased to 33 per cent (higher than the 28 per cent shown in the Figure).

Figure 4. Costs per kg of crude oil, as proportion of crude oil selling price, 2008



The margin for the pressing operations, after taking the costs into account, amounts to about 44 per cent of the crude oil selling price. It can readily be seen that the returns on the variable costs mean that this is a viable activity, if the

throughput can be attained to pay for the fixed costs, including the purchase of the necessary machinery.

It is immediately apparent that, while the collection of the fruit to obtain the nuts is not expensive, and that the main production cost and challenge is in the extraction of the kernel from the nut through cracking, the linkages which govern the availability of nuts are a crucial bottleneck to increasing throughput. I return to this in more detail below.

The crude oil obtained from pressing is then sold by MNP to the refiners who sell to different applications. The sellers of refined oil price this at around 3.5 times the crude oil price. However, more specialized machinery and skills are required here. The commercial success at this level also requires being able to market to a more diversified set of customers, locally and internationally, who use and distribute specialized essential oils and cosmetic grade oils.

The value chain thus links an input which is relatively abundant, but must be collected over a large area of free-growing (not farmed) trees to a specialized niche product. At one end the main challenges are about the collection by rural dwellers and relatively straightforward processing at MNP in a small rural enterprise. The challenges here also include the fairly generic issues of ensuring the appropriate standards, certification, quality control and delivery requirements. At the other end of the chain, it is about the economics of the cosmetics industry and the value placed on organic and fair trade products by this industry and its consumers.

The opportunities for the production are not new in the sense that it is not due to a new property or production process being realized. Rather the value, and thus opportunities, arise from the growth in demand for natural products and essential oils. Understanding the value sources and the key drivers of these from

the marketing side is crucial for the business (McLarty, 2005: 46; Kaplinsky and Morris, 2000).

The forecast for continued strong sales of products labelled as organic is nothing less than robust. As a category, organic (and natural) products are worth $7.3 billon internationally.[40] From 2005-2007 there was a 53 per cent increase in organic product launches, including many new brands appearing in well-known retail outlets such as Wal-Mart, Walgreens and Target. Companies large and small are jumping on the organic bandwagon, whose wheels and fuel (meaning contents) are presumably composed of organic materials.

Support from government, public institutions and donors

For the success of start-up enterprises such as MNP, support measures are very important to overcome the intrinsic constraints to participating in international value chains. This includes areas such as product development and access to finance, where it is recognised that there are market failures (Altenburg, 2007: 42; Woolcock, 1998: 179). The MNP case illustrates the difficulties a start-up faces. While MNP received a wide range of support due to its attractiveness to government and donors, there were specific inputs which alleviated certain constraints that MNP faced. The most important of these were product development, testing and trials undertaken by the Council for Scientific and Industrial Research (CSIR) and Phytotrade. This reflected the fact that MNP was developing a new product, which could only be marketed effectively when the appropriate regulatory hurdles had been crossed. By providing services into the value chain activities (that is, horizontal linkages), positive externalities can be achieved which the private sector alone would under-provide for (Roduner, 2007: 10; Altenburg, 2007: 44). In fact, the competitiveness of the value chain overall is impacted by such services (Kula *et al.*, 2006).

[40] http://www.cosmeticscop.com/organic-cosmetics-special-report.aspx

The second area of support was in finance, where support was offered by the National Empowerment Fund (NEF), Industrial Development Corporation (IDC) and National Development Agency, as well as grant funding from donors. Considerable support has also been received from development agencies over the years, starting with the pioneering funder DfID, followed by the Kellogg Foundation, Ford Foundation and USAID, discussed in more detail under 4.4.3 below. MNP has also been able to access a third area of support in the form of a range of business development services. These relate to more generic challenges facing small and medium enterprises, although there are specific issues facing social enterprises such as MNP, which are addressed in more detail in section 4.4.4 below.

4.3.2 Oil production as core business

A crucial set of strategic decisions of an enterprise relate to identifying its main value creating activities and how to maximise the returns from these given the value chain linkages and relationships (Kaplinsky and Morris, 2000; Kula *et al*., 2006; Roduner, 2007: 8; Khan *et al.*, 2007: 346). These decisions include whether to differentiate the products. Applying this to the case of MNP, it can be seen that an important strategic decision was to focus on oil production. This was based on the fact that the returns from the operation depend on the margins at each level, taking into account the variable processing costs and the relative prices, and the fixed costs that must be covered by the overall input. With reasonable margins in crude oil production as set out above based on the prices that have been negotiated with buyers, the scale of operation becomes crucial. MNP represents a simple manufacturing operation in this sense, with the key challenges being increased throughput, greater production efficiency in both cracking and pressing, and better marketing. Ultimately co-ordination of the production with both the sourcing of inputs and the marketing of the output is a crucial overall challenge, and one that MNP has struggled with.

It is undoubtedly correct that diversification into different marula-based products and/or greater processing and value addition would imply a more complex operation to manage, albeit with potentially greater returns (Kaplinsky and Morris, 2000). While both these avenues were pursued in the past, it is now essentially a commercially-based operation, producing crude marula oil for further refining, by necessity.

The challenges of cracking led to a change in technology being sought to dramatically increase labour productivity in order to pay higher wages (but with fewer hours being required). However, the mechanization that was introduced failed, at least in the set-up in the MNP factory, and hand-cracking is still preferred by the crackers and remains the main method of extracting the kernel.

Greater production efficiency and hence returns have been pursued more successfully at the oil pressing level. MNP estimates that it can produce in excess of one tonne of oil per week.[41] Given the mark-up of the crude oil price over the variable costs, as illustrated in Figure 4 above, every additional tonne contributes substantially to the business, in paying fixed costs and realizing a surplus for further investment in the business or disbursement to the beneficiaries of the Trust (the Trust being a 30 per cent shareholder and the MDA a 70 per cent shareholder). As emphasized in chapter two, this implies a feedback mechanism between performance and upgrading (Kula *et al.*, 2006). With reasonable returns, funds are available for investment in improved production. Alternatively, given demand for the oil, commercial loans can be raised to increase production outputs.

Given these opportunities and the improvements in production efficiency made, it appears management confidence in the MNP business was not strong enough to capitalize on them. It is evident that the key entrepreneurial trait of risk-taking

[41] Interview with A. Mambane.

(see McLarty, 2005) is lacking; the management is risk-averse and will not take a loan to increase production at this stage. The reality is also that the firm is faced with bottlenecks that are difficult to overcome in the short-term, lacking management resources as well as decisive management. This is in the face of an opportunity where MNP could earn an estimated additional one million Rands per annum with the existing capital stock if the turnover could be increased from six tonnes to the planned 18 tonnes.

The fixed costs include the full-time staff in the administration functions who need to be paid whatever the production volumes being achieved, as well as the capital costs of the machinery, and the cost of the buildings. The management and marketing expenses are also crucial, but cannot realize value for the business if there are kernel supply production problems stifling the production itself. This hierarchy of challenges for a small business in the face of limited resources (Bretherton and Chaston, 2005: 278; Khan *et al.*, 2007: 349) is well illustrated by the experience of MNP. Marketing effort is required both to generate demand as well as to negotiate for good prices for output. Having made huge strides in this area on both demand volumes and price, the production needs to be forthcoming if the efforts made thus far are not to be undermined by an inability to deliver.

4.3.3 Value chain dynamics, bargaining power and returns to MNP

MNP illustrates the importance of moving beyond a static description of linkages to understanding the dynamics of the value chain, including the inter-firm relationships (co-operative and competitive), transfer of information and learning and the relative power of firms through the chain, sometimes expressed in terms of governance of the value chain (Kaplinsky, 2000; Morgan, 2005). The value chain framework allows us to analyse the linkages between activities at different levels of the chain, and the returns to different participants.

The importance of linkages between processes at collection and cracking and extraction has been highlighted already, as well as the different organizations involved. This represents an important management challenge whose significance was evidently under-estimated. The challenge includes recognizing that the collection and cracking processes are embedded in the rural community undertaking them. MNP spent a significant amount of time in getting community buy-in and support at the initial stages of the project which had been developed with the communities as beneficiaries. The apparent communication breakdown in the management transitions and the weakness in not properly involving local actors (see also Roduner, 2007: 8) has not been addressed because the approaches of the technical turnaround were such that the relationship was to become clinical 'pay them and you will get your kernel, as Mirma does'.[42] However, even Mirma believes they have to look after their communities in order to assure productivity, and have built clinics and schools where they operate.[43] In this area there has been little if any improvement, as the Trust, whose job it was to do this, has not been functional. The *imbizos* run very recently in the villages appear to be an important step forward, but it is too early to properly evaluate their effect, especially in the context of MNP's payment terms requiring some adjustment.

The upgrading of production, including its organization to improve the efficiency and productivity of the oil extraction has been addressed relatively effectively by TechnoServe and their management of MNP. Indeed, this is the strength of their technical approach to such types of enterprises. Even though, over the life of MNP as a whole, it has been hampered by the significant production challenges in what is effectively a new product, the donor funding has provided the financial space to engage in product development and experimentation. In the product development phase, there has been learning and information transfer from

[42] Interview with Philip Van Rooyen 16 May 2008.
[43] Interview with Thys Slabbert 21 Nov 2008.

other firms, but mainly through the assistance of organizations such as the CSIR and Marulanet.

Inter-firm co-operation has been relatively poor, as MNP has tried, at least until recently, to maintain control over as much of the value chain as possible. This has been a major weakness while, as noted by Morgan, (2006:2) and Bretherton and Chaston (2005: 278), SMEs need to build strategic alliances if they are to overcome their resource constraints. Attempted arrangements with MNP's greatest potential competitive threat (Mirma/LMP) have broken down and, in this sense, the firms have not worked together to increase collective competitiveness but seem set to increase competitive rivalry between themselves.

A more successful area within the dynamics of the value chain has been the improved bargaining over price under the turnaround strategy. Understanding the relative power dynamics, and improved bargaining as a result, is one of the major insights from the value chain framework (see Philip, 2006: 253; Morgan, 2006: 6; Cramer, 1999a). This has been accompanied by negotiating off-take agreements providing a platform for better planning of production, notwithstanding that this was not realized at the production level itself. A better understanding of the prices realized by customers and of the value of the oil as a niche product has allowed this to happen. It should be noted that the crude oil price is still just approximately one quarter of the retail price of refined oil based on quotes obtained in August and November 2008.[44] However, the refining process must also be taken into account, as well as the sophisticated marketing operations required for selling specialized oils into markets such as cosmetics applications.

[44] I was quoted prices per kg price by two wholesale outlets - Cosmetichem at R688 in August 2008 and Holistic Emporium R840 in November 2008.

As there is clearly a niche market for this unique oil, marula oil producers could generate more than the current income levels if business strategies incorporating intellectual property protection were in place to popularise the ingredient, expand its usage, and ensure that Southern African producers, using traditional techniques, were the only recognised suppliers with no synthetic simulations being acceptable.[45] The extent to which those selling the refined product are able to act collectively to achieve progress will have implications for the prices that producers of crude oil can bargain for, if they are aware of the customers' changing position.

Progress to date has depended on understanding and emphasizing the unique nature of the product, and assessing the value of the product to the buyer. Despite electing to focus at the crude oil production level, and not moving 'up the value chain', and despite facing large and international buyers, the particular and rare nature of marula oil has enabled this bargaining by MNP and those acting on its behalf. While the powerful downstream industries, such as in cosmetics, appear to hold an overwhelmingly stronger position, the MNP case illustrates the importance of a firm understanding the leverage at its disposal and building this into its business strategy (Bretherton and Chaston, 2005; Morgan, 2006).

Although this is not a particularly complex value chain, the MNP case also highlights the importance of strategic and management capacity to undertake the necessary analysis to guide decisions (as reflected in the literature, such as McLarty, 2005; Lusby and Panlibuton, 2007; Khan *et al.*, 2007). For the initial period, much time and funding was expended by MNP on diversification, product development and higher value products. On the other hand, over the past two years, a diagnostic and turnaround exercise on the business has indicated a move in the opposite direction, which has been substantially completed. Aside from

[45] http://www.lightyearsip.net/scopingstudy/marula.html

the relative merits of these two approaches, the case highlights the challenges of engaging in these decisions and implementing the necessary steps for them to have a good chance of growing.

4.4 Analysis of the key challenges and how these were addressed

The case study of MNP provides insights into the challenges of pro-poor value chain development in different ways. First, it is an example of the challenges in establishing a small agro-processing enterprise focused on high-value non-timber forestry products. Second, it has characteristics of a social enterprise in its objectives, governance and management. Third, it has received substantial donor support and allows us to reflect on the implications of such support. Fourth, it has received a range of support in the form of business development services. Each of these is subjected to critical evaluation in the case study.

4.4.1 Challenges in establishing a small agro-processing enterprise

Agro-processing, and especially high-value agricultural products (in this case, more specifically non-timber forestry products), has been viewed as an important private sector-led avenue for rural development if market failures can be overcome (Gulati *et al.*, 2005; Ham and Thomas, 2008). In general, this is firmly located in the potential gains from globalization and opportunities from international trade. The MNP case study well illustrates this approach in that its products were niche and high value, processed locally for sale into local and international markets. Its experience is a useful test case of the realities facing such enterprises.

As a complete start-up MNP had to face all the challenges of such an enterprise around product development, establishing the management structure and physical operations, and identifying markets. Its initial phases were very focused on the potential products. Here, the case study illustrates the time and finance

required, and the uncertainty around product acceptance, as seen in the case of the beer and cider. While high value products are attractive in principle, if they are new products, or variations (as with the beverages) there is a risk associated with their development and acceptance.[46] The distance from facilities for research and product development is an added cost. In the case of MNP, the products were developed and tested in Gauteng and later Durban, which is also where samples had to be sent for quality assurance, all adding to the product development costs. Other costs included the lack of adequate buildings for rent which meant that new buildings had to be erected, as well as there being no guarantee of uninterrupted electricity supply.

Similarly, the MNP experience points to the costs in marketing and market access, which are easily under-estimated.[47] It is time-consuming and costly to obtain the certification which may be required for the product's niche appeal, such as organic and fair trade certification (Altenburg, 2007: 26). The identification of markets is also often a more laborious exercise than anticipated, involving samples and trials, as well as properly understanding the needs of potential customers (Philip, 2006).

While certification is a case of 'making markets work' and MNP has had a lot of relatively good support in this area, the understanding of customer's requirements is a barrier to a business such as MNP which is not driven by a hands-on, opportunity-seeking entrepreneur who is also customer-focused (Bretherton and Chaston, 2005; Shaw and Carter, 2007). Indeed, for MNP the entrepreneurial drive for profit is replaced by the impetus and ambition of an NGO for social development, which is product and community focused. MNP was founded on the identification of marula as a naturally occurring indigenous fruit which was already being processed and the desire to further add value for the

[46] Interview with G. Njoni.
[47] Interviews with S. Ndwandwe, G. Njoni.

benefit of the community, rather than a creative drive sparked by a single entrepreneur driven by expectation of his or her own reward.

The management and entrepreneurial drive had to be generated by the organization and its goals. The familiar weaknesses of small enterprises in lacking management experience and capacity can also be observed in MNP, with weaknesses such as one manager multi-tasking and not having the time or capacity to establish proper management systems and ensure institutional memory (McLarty, 2005).[48] This has cost them dearly because when their longest serving manager left, she did so with valuable knowledge about the business and the community.

MNP further faced the challenge of balancing different interests of the individuals and organizations involved in managing the enterprise. Within the MNP setting and business location where major stakeholders were predominately African people with deep rural cultural norms and values, it appears there is a need for acknowledgement and respect of the value systems and culture and it is important that management is able to accommodate cultural nuances in order to get the co-operation which moves the business.[49] Others believe in applying efficient business principles. Clearly both are equally important (Lusby and Panlibuton, 2007), and the LMP director confirmed the value of building a rapport with the community beyond money. For example, they build schools and hospitals in the communities where they work.[50] Social capital has a lot of value in this regard in rural areas, where communities are closer to each other (Woolcock, 1998: 163-164).

MNP's input supply chain appears to be constrained and part of this may be due to poor cash flow problems and the system of payment in the supply chain which

[48] Interview with G. Njoni.
[49] Interviews with Aaron Mambane and Thandi Hlatswayo, Thys Slabbert.
[50] Interview with Thys Slabbert 21 Nov 2008.

follows the production cycle. An important system which took time to establish but was successfully done was the supply chain (Philip, 2006), although through the transitions the system as well as communication is said to have broken down, despite having maintained the same supply chain officer since 2002. This may have added to the complexities related to the kernel supply shortage. Many sources confirm that the marula area in South Africa is vast and there is no shortage of marula, except for seasonal variations in yields (see, for example, Philip, 2006: 240). Mirma, the biggest pulping operation in the industry for 18 years says studies conducted by the University of KwaZulu-Natal confirm that they only use 0.01 per cent of the marula fruit in the country.[51]

MNP appears reluctant, however, to take a risk of commercial finance, which has apparently been offered.[52] This risk appears to be linked to the lack of confidence in the ability of the enterprise to service its debts. The long waiting period for payment could well be a demotivating factor affecting the flow of kernel supply for MNP.

It also appears that there has been poor succession planning, making the enterprise's momentum very vulnerable to people moving on, although, informal links are maintained to allow for continuity.[53] This compares unfavourably with a more typical entrepreneur-driven organization, where the founding entrepreneur is expected to lead the enterprise for a considerable period.

4.4.2 The social nature of the enterprise

The particular social nature of MNP has already been touched on. It is also closely related to the role of donors and development agencies, analysed in section 4.4.3 below. The experience of MNP reveals a number of key points to do with the social nature of the enterprise and the particular challenges it faced

[51] Interview with Thys Slabbert, director at Mirma.
[52] Interview with G. Njoni and S. Ndwandwe.
[53] Interviews with G. Njoni and J. Loumas.

because of this nature. At the most general level, the social objectives and governance structure make it even more difficult to overcome the obstacles faced by small enterprises (Shaw and Carter, 2007; Low, 2006; McLarty, 2005). Counter-balancing this is the access to donor funding, the business having been capitalized with donor money, but this does not necessarily make it more sustainable in the medium term.

Second, the social enterprise nature of MNP meant a multiplicity of objectives as typical for such entities (Mort *et al.*, 2003: 80; Shaw and Carter, 2007). In the case of MNP, it was coupled with a lack of clarity about the relative importance of these objectives and how they were to be implemented in practical management terms. On one hand, MNP was incorporated as a proprietary (pty) business quite early in its existence to place it on a commercial footing in terms of its orientation. On the other hand, the composition of the board and the role of the Trust as shareholder was not consistent with such a business orientation.

The governance of social enterprises is complex due to the different interests and objectives and, while being in the not-for-profit sector, the governance models from this sector are not appropriate as they will not effectively address the enterprise demands (Low, 2006). The MNP case indicates the need for much clearer roles, with the Trust's position stipulated as custodian of profits on behalf of the community. However, the Trust became involved in directing the business, partly due to the fact that it was not made clear that the business needed to grow before dividends could be derived, and the Trust did not appear to understand the business principle that you 'cannot eat the cow before the calf is born', which was difficult for the manager to get across to the Trust when he was expected to develop it.[54]

[54] Interview with James Loumas.

Third, management was not chosen, at least in the initial period, with a business background in mind. This confused the distinct features of social enterprises (as elucidated by Shaw and Carter, 2007) with the need to effectively manage the enterprise. The MNP management comprised people with NGO and development project backgrounds. Hence MNP was being run as if it was fundamentally about spending donor money on projects with beneficiaries (see, for example, MNP, 2004). While MDA appointments may have had a record of good work at community levels, they did not always do well at the business level. For example, MDA had a lucrative BEE deal with a mining company for procurement where they could have continued as service providers had they done well, but the contract was lost because of poor performance associated with the internal people appointed.[55] When managers were appointed to MNP with a stronger business background in recent years, there was conflict with the established organizational culture, notwithstanding the framing of such conflicts in terms of 'outsiders' versus the community's interests being protected, and/or simply race.[56] Likewise the people appointed did not feel comfortable in the setting – there were issues of lack of trust and to get beyond this takes take time.

Fourth, the framing of MNP as a development 'project' rather than a business is integrally tied up in the donor funding provided at the earlier stages in its life cycle. The approach and rationale behind MNP was heavily influenced by the conceptual frameworks of DfID and MDA. In hindsight this appears somewhat idealistic in terms of the potential for high value agriculture products, and beneficiation to manufacture niche products. It was most clearly revealed in the focus on the product itself as the outcome, rather than the returns, including from marketing. The implications of being donor-driven are now explored in more detail.

[55] Interview with MDA CEO.
[56] Interviews with all MNP staff and board members.

4.4.3 The impact and implications of donor funding

The positioning of MNP as a pro-poor enterprise has been a big seller in obtaining support for it as a flagship enterprise from government, donors and development agencies alike. The development agency support has undoubtedly been reinforced by the high profile government recognition for MNP. For example, the Minister of Water Affairs and Forestry, Mr Ronnie Kasrils, attended MNP's inauguration in 2002. The Department of Agriculture also expressed support for the development of marula products and held preliminary discussions with MNP's Mr Mboweni. As described above, a series of development agencies and donors provided funding for MNP, from DfID at the initiation, through the Kellogg Foundation, the Ford Foundation and USAID.

Given the market failures and obstacles to obtaining finance for SMEs in general, and especially for social enterprises, without the donor support at the start-up phase, the necessary investments would probably not have been made. As recognised in the literature (see, for example, Roduner, 2007), the implications of donor funding are deeper than the development project approach which characterised the start-up period. Funding should be carefully oriented to where there is a clearly identified need, which when met will enable sustainably ongoing activity. The implications of donor funding thus revolve around questions of sustainability and the role of donors and development agencies in supporting private sector-led development (see also, Altenburg, 2007; Miehlbradt and McVay, 2005).

The funding for MNP has thus had an essentially double-edged nature.[57] It enabled the start-up investment to open up the opportunities. However, the business almost unavoidably became dependent on the donor funding and did not face harsh commercial realities. These realities include the basic need to

[57] Interview with S. Ndwandwe.

identify how to realize sustainable returns such as improving productivity and efficiency, including the deployment of machinery. They also include the need to more effectively co-ordinate marketing and production efforts. However, less obvious realities are the need to be realistic about the staff capacity and the length of time a non-shareholder will commit to and remain with enterprises like MNP.

The donors continued to support MNP as an individual enterprise beyond the start-up phase rather than moving to interventions targeted as systemic change. The result has been that at each review of donor support, MNP has appeared on the verge of collapse, before another donor steps in. It is unclear just how close it is to being a sustainable enterprise. The ongoing dependence of MNP on donor support, linked to the failure of donor support to evolve away from supporting it as an individual enterprise, is entirely consistent with the predictions of the literature (see, for example, Miehlbradt and McVay, 2005; Roduner, 2007; Altenburg, 2007). In this context, it is important also to note that MNP may well face competition in the short to medium term and its commercial sustainability depends on being able to meet this competition, which donor support has not prepared it for.

4.4.4 Business Development Services

Business Development Services (BDS) are services used by entrepreneurs to help them grow and operate their businesses, and represent an important component in strategies for private sector-led development (McVay and Miehlbradt, 2001; Miehlbradt and McVay, 2005; Philip, 2006). Three distinct groupings of advisory and support services falling under the banner of BDS have been provided to MNP. Donors, and specifically DfID, provided advice, marketing, establishing information systems and project support in the earlier years.[58]in line with their thrust of 'making markets work for the poor' to develop high value agricultural

[58] Interview with G. Njoni.

products. The second grouping is of services also largely utilized in the start-up phase in the form of technical and product development services, including the services of CSIR, Phytotrade and other researchers working on the potential products.

The third group consists of technical advice directed to managing and operating small businesses such as business diagnostics, marketing, and management advice (McVay and Miehlbradt, 2001). These services address resource constraints typically faced by small businesses, as described above (see also Ham and Thomas, 2008; McLartey, 2005). In the case of MNP, BDS provided by TechnoServe was a major part of the turnaround strategy and included marketing, production and technology improvement.

Although MNP had been provided with financial support and project development support in the earlier stages, the turnaround strategy was premised on MNP being sustainable with the appropriate BDS interventions.[59] The analysis in this section focuses on the impact of these BDS interventions and what can be learned from the MNP experience.

It is apparent from the above analysis of the value chain and the economics of the MNP business that commercial success had eluded the enterprise and that there were major problems which it had failed to address. The type of diagnostic approach adopted by TechnoServe identified key viability and profitability challenges such as the need to improve productivity and throughput, which were of a generic nature yet had not been properly dealt with before. The value of BDS is thus partly that it does not treat the business as a special case but examines the fundamentals of what is at heart a relatively simple manufacturing operation and identifies the harsh commercial realities which must be addressed for sustainability (McVay and Miehlbradt, 2001).

[59] Interviews with J. Loumas and P Van Rooyen.

The BDS advice provided in the case of MNP went against the previous emphasis on greater value addition and product diversification, to focus instead only on crude oil production. At the same time, however, it involved improving the pricing of the product by better understanding the nature of customer demand. It therefore sought to balance both supply and demand oriented interventions (McVay and Miehlbradt, 2001: 57). The supply and demand interventions were not, however, well co-ordinated with first the focus on supply leading to a large stock-pile, then a focus on customers generating a demand which could not be met, resulting in a return to the supply-side and production focus in recent years. There have, however, been major improvements in the performance of MNP and the combined steps have brought MNP closer to being a viable business enterprise.

The MNP case study highlights important gaps of a more substantial nature in a BDS-centred approach, due to its emphasis on an external consultant model. By its nature BDS is the application of transferable and relatively standard management techniques, invaluable to enterprises on the margins because of their lack of relevant management experience or skills. This is the case for the advice given related to marketing, finance and information systems as well to improving productivity. Important questions arise, however, related to the contribution of such advice to developing a sustainable enterprise. The structure in which BDS has been applied to MNP (as would be expected in other cases) is of an external consultant dispensing expertise. It may well be the correct expertise, but sustainability implies that the advice becomes embedded in the practices of the organization. If it does not, it merely sets in another type of dependency, this time on management consultants, in the role of 'external experts'. Where the approach imparts skills, the challenge then becomes the retention of the employee in the enterprise given the marketability of their newly acquired skills, without some incentives such as ownership.

Furthermore, for sustainability, the provision of BDS needs to be demand-driven to make the best value of it. If this is not the case there is a danger of preconceived notions of the important issues developing without an internal understanding of the business and the context in which it operates being pushed onto an enterprise and accepted by it as it is a free service (Philip, 2006; McVay and Miehlbradt, 2001). The fact that TechnoServe was funded and commissioned by the Business Trust to identify businesses in the area to assist meant TechnoServe's support came too easily and was not fully valued.

CHAPTER FIVE

CONCLUSIONS

5.1 Introduction

This research report has addressed the core issue of the constraints and opportunities facing 'pro-poor' enterprises through a case study of the Marula Natural Products enterprise. The research has thus addressed the questions of the constraints and challenges impacting on the performance of MNP, together with the effects of the interventions made, and what is further required for MNP's commercial sustainability. MNP was established explicitly because of the impact that it would have on the surrounding community, with the support of an international donor and local NGO. It therefore falls within the category of 'pro-poor', and furthermore was a social enterprise in terms of its governance arrangements and objectives.

The business rationale for MNP was based on the opportunities from processing of non-timber forestry products for local and international markets; there were also market failures which it was believed could be overcome by appropriate interventions. It thus typifies the application of a value chain framework as part of supporting private sector-led development. However, the performance of the enterprise has not met the expectations in terms of growth and commercial sustainability.

The conclusions on MNP's performance start with common business challenges before focusing on the opportunities and difficulties associated with the field of high value agricultural products, and specifically those products processed from natural and indigenous non-timber forestry products. Conclusions are also then drawn on the role of donors in the performance of MNP and the issues related to MNP as a social enterprise, together with the associated management

challenges. Based on this it is also possible to draw implications on what is still required for MNP to be commercially sustainable. Lastly, the insights are related to the wider debates about 'making markets work for the poor', and 'pro-poor' private sector-led development.

5.2 MNP's performance in the marula value chain

To a large extent, the challenges MNP experienced in the start-up phases appear to be common to any pioneering or new product development by a small firm. Difficulties with R&D and product development are not unique, and most entities will experience similar challenges, along with tackling obstacles in accessing finance and markets. In MNP's case, the initial costs were supported by DfID funding. Although the marula fruit has some unique features, it is an agricultural product subject to weather conditions, seasonality and production challenges like any other. MNP therefore faced challenges of ensuring input supply, with the nature of marula meaning these were to do with collecting or harvesting rather than cultivation of the fruit. At this stage there are specific issues with regard to the relations with those collecting, explored in more detail below under the heading of relations with the communities. However, failure to pay timeously, as well as the management transitions, has certainly impeded the supply of input which in turn negatively impacted on working capital, a problem common to SMMEs.

The processing also represented particular challenges, common to this type of business. While the high unemployment rate prompted MNP to create work opportunities through labour-intensive processing, the low productivity associated with manual cracking means that payment is so low as to reduce the intervention to merely providing supplemental income. As such, there is no steady work guaranteed and when other opportunities arise, such as at times of the year when people tend crops, many abandon the tough and low-reward

marula cracking work. The key challenge of increasing productivity, to increase the scale of operations and to be able to increase payment for labour, has been linked to increasing the mechanization of the cracking process and solving the difficulties of adapting a technology suited to a factory environment to the small-scale operations at MNP. This remains one of the major obstacles to the growth and commercial success of the enterprise.

The MNP challenges in processing are also linked to issues of product development and the value chain dynamics. The literature on value chains has emphasized the need to upgrade products and to develop more specialized and niche products in order to maximize returns. MNP followed this approach at both the start-up and commercialization phases through pursuing a range of different product possibilities with little or no success (although the reasons have not been explored here). It is clear that for now, the marula oil itself is a specialized product and can be marketed as such for cosmetics applications, with its attraction also depending on its natural and indigenous nature and claims.

The case study analysed here demonstrates that obtaining the returns from its specialized nature depends on another aspect highlighted in the value chain literature, that of the relative power in bargaining between those at different levels of the value chain. Although MNP sells to large and international cosmetic companies, the case study illustrates that better prices can be obtained through understanding the value placed on the product by the buyer (and the price at which the buyer can on-sell the processed product). It also illustrates the importance of negotiation skills, and the need to have exposure and confidence, to play off more than one buyer against another to obtain higher prices. This is illustrative of one of the key features of imperfect markets in international value chains, where small producers are in a relatively weak position because of the market power of other actors. With training, support and experience however, their position can be better leveraged.

MNP's market opportunities include the stronger demand that comes from being able to sell into international markets. This reflects the positive side of globalization. The case study highlights the challenges in realizing these opportunities in being able to participate in the market as an SMME producer. The experience of MNP demonstrates that being able to leverage support from organizations such as Phytotrade must not be under-emphasised as it makes a big difference in accessing market linkages.

A key challenge that faces any SMME at implementation or business development stage is the management expertise and entrepreneurial drive needed. This is even more so when exporting quality goods in a globalizing world. Typically, the owner-manager of an enterprise brings this. In the case of MNP, external expertise was available to the enterprise. The assistance in the early period from organizations such as the CSIR with product development, was supplemented by technical and analytical expertise provided in more recent years through the Business Development Services (BDS) model. MNP had the backing to leverage resources in the beginning with strategic partnerships such as DWAF, Phytotrade, IDC, NEF and the CSIR all playing different supportive roles. The later BDS support is discussed in more detail below. However, here it is noted that a major problem in bringing the assistance to bear on results has been the lack of continuity in management, and governance problems more broadly, as well as how an NGO can derive the necessary entrepreneurial drive and innovation to accelerate enterprise growth. This goes to the heart of a donor-driven approach to enterprise development to address poverty which underlies the evolution of the governance arrangements at MNP.

5.3 Implications of a donor driven approach and MNP as a social enterprise

The case study provides an interesting test case of the evolving approach of donors to private sector-led development. As discussed above, the approach is based on the identification of market failures which, when overcome, will enable people to participate more fully in the economy as producers through the growth of small enterprises. The donor funding and support in the 'project development' phase of establishing the business relaxed the financial constraints on making the investments in the start-up, as banks would generally not lend to finance these investments.

The analysis here points to complications from the over-riding objectives being economic and social development while, at the same time, the sustainability of the enterprise depends on commercial viability once donor funding ends. The MNP case highlights the need for the governance structure (in the form of the Board) and the management to be focused on the commercial imperative – but donor funding was too easily attracted. In MNP, the development project approach with a donor-driven management mindset persisted in the background for perhaps longer than necessary, given the need to shift to the next level of commercialization. This was coupled with the problematic additional administration and management layers of the Trust and the Board well before the enterprise was profitable, adding to the pressure on the business.

It is clear that for social enterprises to be able to meet their objectives they must be profitable, notwithstanding that the profit does not accrue to individuals but to beneficiaries for whom the business was conceptualized. Thus, the business must be effective. While MNP pays close to R600 000 to the community of 45 villages, based on the 6 tonnes per annum calculation, it is doubtful that MNP is making a significant dent in the fight against poverty. It remains unable to pay minimum wages for those producing kernels with the current methods of hand cracking, as discussed above. The higher labour productivity which would come

from machine cracking would likely improve these payment levels, and increase the overall throughput of MNP. However, this may have the implication of fewer employment numbers and presents yet another intriguing social dilemma.

Given that enterprises like MNP present some hope for rural economic development and poverty reduction, they need to be profitable and sustainable enterprises, and to be profitable they need to be focused and driven in accordance with business principles. In the case of a production business like MNP this is about managing people, cost, production and markets. The production setting is quite straightforward, with markets and marketing a challenge, as are cost efficiencies. Once markets have been identified and secured, as MNP has done, it is imperative that efforts are consolidated to manage the production to meet the demand. MNP is self-evidently not rising to the challenge, as it signed the off-take agreement nearly three years ago but has not managed to move beyond half of the volumes that are required.

An important part of the problem here is that ongoing donor support at every point of crisis has meant some difficult decisions have been avoided and the risk of donor dependency has been exacerbated.

Two inter-related problems can be distinguished here. The donor support in the early stages, along the lines of a development project, meant there was over-emphasis on production and supply, at the expense of understanding the markets and demand-side expectations. However, now that a market has been secured, the business practices have been too slow to seize the opportunity. The main objective was get people working to earn incomes. Once the market demand was understood and orders obtained, the lack of responsiveness on the supply side to this demand became clear.

The second problem is the tendency to underestimate the role of the entrepreneur in developing an enterprise. As the MNP case emphasizes, this is closely related to risk-taking and investments which are required to drive a business. MNP is effectively owned by an NGO which received the shares, in effect, as a donation. While MDA clearly wants MNP to succeed, it does not appear to have enough drive or time (with many projects and opportunities to chase) to single-mindedly pursue MNP's performance. So, while they have something to lose, the stakes are not high enough. MDA has done what it knows best, bringing in people from its internal operations to work in MNP and, while this has been good in that they work within the MDA ethos, this does not necessarily ensure the entrepreneurial drive born of opportunity and risk-taking. The MNP case thus reinforces the insights from the literature that donors should not continue to support individual enterprises which may foster dependency on ongoing support.

The donor support has become more nuanced as MNP has evolved, while different agencies have brought their own perspectives and approach. The adoption of a BDS framework (as provided by TechnoServe) to support small enterprises represents a more targeted and commercially oriented approach to this support. The MNP case study, however, points to the dangers of not being fully aligned and responsive in the way in which the BDS are implemented. The nature of BDS is of external 'experts' bringing their own clear ideas as to the needs of enterprises. If this is not tailored to the needs of the business in question, supported and championed by management and carefully integrated into the long term management capabilities of the enterprise, the good but costly technical advice will be undermined. The board appears to have largely ignored the recommendations made after the turnaround strategy.

The analysis here suggests that the recommendations are an important component of MNP becoming commercially sustainable. There is a strong

business case for increasing the production efficiency to meet the demand which has been generated, and to be able to pay better wages to those working in collection and processing. In turn, this is an important part of improving the supply of inputs. The challenges faced by social enterprises, as reinforced by the MNP case study, also points to the need for the MNP enterprise to be managed in a way that can best address the commercial imperatives. This includes the ability for entrepreneurial decision-making, and suggests a smaller ownership and management role for the MDA. It is important to note that this has been recognised by the MDA itself as far back as 2004, when it was envisaged that a commercial partner would take a 40% ownership stake (MNP, 2004: 7).

5.4 Making markets work for the poor?

Development paradigms tend to swing from one side to the other. While the emphasis on private sector-led development follows from the neo-liberal approach to economic development, it does, however, also acknowledge the market failures which justify intervention. It has led to the types of donor programmes and support of which MNP is a useful case study.

As such, the MNP case study highlights the challenges in developing these activities in international value chains and indicates that these challenges can be overcome; but to do so successfully and on a reasonable scale requires understanding both local dynamics and the international value chains. The assistance provided under value chain programmes such as 'making markets work for the poor' and support to pro-poor enterprises is too simplistic in that the issue of entrepreneurial drive for successful business development is often ignored. In this regard, the case study indicates the importance of understanding local economic activity as being embedded in local economic realities, which any small entrepreneurial business has to grapple with, but which external consultants may fail to properly appreciate.

In addition, the case study points to contradictions in socio-economic objectives driving a commercial business, while socio-economic benefits can be gained only with commercial success of the enterprise**.** The ability to balance the two concepts and effectively translate it into the business strategy, principles and practice is crucial for the sustainability of enterprises such as MNP. It appears MDA has struggled to attain this balance; hence its inability to reduce its seventy per cent shareholding, even though this has been part of its plans since 2004. MNP started in 1998 with a social development orientation on the back of donor funding and, although the business was decisively turned into a proprietary company in 2002, the culture has been difficult to reverse.

To build a successful model for enterprise development to address rural poverty is undoubtedly a demanding and complex issue. The MNP case study suggests, moreover, that such initiatives are not going to be the big answer to rural poverty and unemployment. As we learn more about the opportunities and constraints we can be better prepared to enable these initiatives to play a more meaningful role.

Annexure: List of Interviews

No.	Date	Name	Position	Comments
1	16 May 08 11 Nov 08	Philip Van Rooyen	Operations Manager & Business Advisor to MNP (2007-2008)	2 major in person interview 2 minor telephonic Philip was seconded to MNP as an Operations Manager but also doubled as a business advisor
2	28 Aug. 08	Shani Vermeulen	CEO of Arch Personal Care	Arch Personal Care is the main buyer of MNP oil since 2002
3	4 September 08	Sarah Venter	Managing director of Eco Products	Eco Products is a privately owned Baobab oil producer with similar business model as MNP. It also sells to Arch personal care
4	19 Oct 08 26 Oct 08	Girlie Njoni	Former CEO of Marula Natural Products (MNP)	2 interviews, one in person and one telephonic Girlie was a seconded to MNP from MDA and held several positions. 1999 - 2002 - Product development Officer 2002- Operations Manager and later become the CEO
5	11 Nov 08 28 Nov 08	Sifiso Ndwandwe	CEO of Mineworkers Development Agency (MDA)	MDA set up MNP and has major shareholding at 70%
6	20 Nov 08 21 Nov 08	Aaron Mambane	Current Operations Manager	Interviewed in person and on site and telephonically
7	20 Nov 08	Agnes Mahlakoane	Production manager/ administrator	Interviewed in person and on site
8	20 Nov 08	Jeffrey	Oil Presser	Interviewed in person and on site
8	21 Nov 08	Roger Mkhari	Supply chain officer	Brief telephonic interview even though he had warned he did not want be interviewed
9	20 Nov 08	Thandi Hlatwsayo	Mhala Center/Trust Administrator	In person
10	20 Nov 08	Gibson Nkuna	Current part time CEO (once a week)	Board member since 2005, appointed CEO to provide leadership Interviewed in person
11	20	Mr Mboweni	Director at the Dept Agriculture in Nelspruit	Current Chairperson of MNP Trust

11	21 Nov 08	James Loumas	Former General Manager 2006-2007	
12	21 Nov 08	Thys Slabbert	Director of Mirma and Limpopo Marula Products	The main marula collection competitor to MNP

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