



# How to implement a sharemilking project 2015

# Alamycin

*The affordable,  
versatile  
oxytetracycline  
of choice*



For all your needs!



PRODUCT: Alamycin 30 Injection Reg. No. 62733 (A/36/1947) • Alamycin LA Injection Reg. No. 51551 (A/36/1947)  
Alamycin LA 300 Injection Reg. No. 52619 (A/36/1947) • Alamycin Aerosol Reg. No. 62647 (A/36/1947)  
REGISTRATION HOLDER: Norbrook Laboratories SA (Pty) Ltd. Company Reg. No. 1967101792047  
SALES & DISTRIBUTION: Batech Laboratories (Pty) Ltd  
Tel: +27 (0) 11 846 3000 • e-mail: info@bitech.co.za

**Norbrook**

**BIOTECH**  
LABORATORIES (PTY) LTD  
VETERINARY

\* Refer to package insert for further details

# **How to implement a sharemilking project** 2015



Sponsored by Biotech Laboratories (Pty) Ltd  
Produced for the Milk Producers' Organisation by Agri Connect

Copyright © – Milk Producers' Organisation  
PO Box 1284  
Pretoria, 0001  
South Africa  
[www.mpo.co.za](http://www.mpo.co.za)

All rights reserved. No part of this book may be reproduced or transmitted in any form or by any means, electronic or manual, including photocopying and recording, or by any other information storage or retrieval system, without the written permission of the authors.

Reproduction:  
Agri Connect (Pty) Ltd  
PO Box 1284  
Pretoria, 0001  
South Africa  
[www.agricconnect.co.za](http://www.agricconnect.co.za)

Author: Lieb Venter  
Publisher: Leza Putter  
Executive editor: Robyn Joubert  
Copy editor: Michele van Loggerenberg  
Creative design: Sulizna Botha  
Printed by: Fishwicks +27 (0)31 268 7300

# Foreword

South Africa has a unique dairy industry that has to survive in an internationally competitive environment with its threats of subsidised imports. In addition, South African farmers, in particular dairy farmers, receive little support from government, culminating in the fact that they are not only competing with their equivalents in other parts of the world, but also with the government support measures these farmers enjoy. Nevertheless, South Africa has developed an internationally competitive industry, but this has unfortunately not been without casualties.

Since 1994, dairy farms have dramatically increased in size to enjoy the benefits of economies of scale in order to survive. Uncertainty about landownership is further complicating life for local dairy farmers. This has hampered economic growth, affecting dairy farming in particular over the years. There are, however, ways to overcome the threat of land expropriation. Strangely enough, the best example comes from New Zealand, where dairy farmers have employed sharemilking schemes for years.

In its most basic form, this means one farmer owns the livestock and another, the land. By means of a contract between the parties, they share the gains from the farming operation. This creates new opportunities for dairy farmers in South Africa where you can rid yourself of the burden of uncertain land ownership. It provides the opportunity to increase the size of the business and enjoy the economies of scale of larger dairy farms. Overall, it's a win-win situation.

This manual was developed to assist farmers to become knowledgeable in the basic principles of sharemilking.

**Bertus de Jongh**  
**CEO of the MPO**

# Sponsors' foreword

We live in exciting times, on an extraordinary continent and have a colourful collection of people with rich heritages and unique animal healthcare needs. It takes a truly South African company to meet their healthcare requirements in a comprehensive manner.

Biotech Laboratories (Pty) Ltd is a proudly South African pharmaceutical company founded in 1990. Since 2011, Biotech has partnered with Norbrook Laboratories, a leading global veterinary research and development company based in the United Kingdom, to bring you their extensive range of high-quality animal healthcare products. Biotech markets, sells and distributes generic and branded veterinary pharmaceuticals to all animal health sectors in South Africa, Namibia, Botswana, Zimbabwe, Mozambique, Swaziland and Lesotho.

It is Biotech's mission to supply products that respond to the strategic animal healthcare needs of developing nations. Biotech supplies to and is committed to the dairy industry in South Africa and we are privileged to be part of this initiative to expand the dairy industry and to make it accessible to all South Africans.

Yours sincerely

*Nico Coetzee*  
**Veterinary business unit manager**



# Table of Contents

1	Introduction .....	8
2	What is sharemilking? .....	8
2.1	New Zealand.....	8
2.2	South Africa .....	9
3	Value to South Africa and the dairy industry .....	9
4	What is AgriBEE? .....	10
5	SWOT analysis.....	11
6	Legal entities in South Africa.....	14
6.1	Sole proprietorship .....	14
6.2	Partnerships.....	14
6.3	Companies.....	14
6.4	Joint ventures.....	16
6.5	Public-private partnerships.....	16
6.6	Co-operatives.....	17
6.7	Trusts.....	17
7	How does sharemilking work?.....	17
7.1	Objectives .....	17
7.2	Principles .....	17
7.3	Legal entity .....	18
7.4	Capital contribution.....	19
7.5	Financing the operation .....	19
7.6	Profit sharing .....	19
7.7	Accounting.....	20
7.8	Management .....	20
7.9	Training .....	21
8	How to implement a sharemilking project .....	24
8.1	Type of projects .....	24
8.2	Identifying a suitable partner/community .....	24
8.3	Registering new legal entities (sharemilker and landowner) .....	23
8.4	Stakeholders to be consulted .....	24
8.5	Agreements/memorandums of understanding/contracts.....	25
8.6	Business plan .....	25
8.7	Financing the development and operation.....	25
9	Aspects to consider when entering into a sharemilking agreement.....	26
10	Key aspects needed to achieve your goals .....	27
11	Conclusion.....	29
12	References .....	30

# 1 Introduction

The Milk Producers' Organisation (MPO) and other members of the dairy industry are spending substantial amounts of money to promote black economic empowerment in the primary dairy industry. Most of this money is spent on the training and mentoring of emerging farmers.

Due to the competitive international environment, even commercial dairy farmers find it difficult to survive. As a result, about 10% of commercial dairy farmers exit the industry every year. Farmers are expanding their production so that they can employ economies of scale to assist them in becoming more competitive internationally.

It is obvious that this trend is contrary to the development of small-scale emerging farmers, and therefore successes among small-scale emerging farmers are unfortunately few and far between.

However, the MPO believes there may be solutions, such as the current school milk pilot scheme. This project is funded by the

Department of Agriculture, Forestry and Fisheries, which may help some small-scale emerging farmers survive.

Another proven method of successfully empowering previously disadvantaged individuals in the dairy industry, is the implementation of the New Zealand sharemilking scheme, which has found favour particularly among commercial dairy farmers in the Eastern Cape. Several successes have been recorded where emerging farmers have partnered with commercial farmers in some form of business structure.

The MPO is often requested by dairy farmers to assist them with black economic empowerment. However, many farmers who are willing to develop a project do not necessarily have the knowledge to participate in a scheme of this nature. The MPO has produced a comprehensive manual to instruct commercial farmers in detail how to develop such a sharemilking scheme for the benefit of all parties involved.

## 2 What is sharemilking?

### 2.1 New Zealand

Sharemilking has been in New Zealand since the 1940s, when a survey showed that 11% of larger farms were managed by sharemilkers. Since then, thousands of farmers have used it to climb the ladder from farm worker to farm owner (DairyNZ, 2012). Today, approximately 40% of the dairy farms operate with sharemilking contracts.

Sharemilking is a contractual arrangement where one party (the farm owner) provides the infrastructure required for dairy farming, and the other (the sharemilker) provides the physical labour, management skills and some of the assets or livestock required to operate the farm.

Under the 50% agreement the sharemilker owns the herd, plant and mobile equipment and is usually responsible for all milk harvesting, stock-related expenses, general farm work and maintenance. He/she usually receives 50% of the milk income and the proceeds from most of the stock sales, and is usually largely responsible for farm management (Buchanan, 2002).

There are very sound reasons for the popularity of sharemilking, its principal strength being the benefit to both parties.

On average, sharemilkers run larger herds at higher stocking rates for higher production per hectare than owner-operators. They tend to be the sector within dairying with faster and more complete uptake of research and extension.

The people involved in sharemilking have a variety of backgrounds. Recent years have seen an influx of young tradespeople and professionals from outside agriculture who have identified the benefits of sharemilking and are now sharemilkers themselves.

Sharemilking will continue to be an important part of the New Zealand dairy industry because of its fundamental

strengths. It is a win-win arrangement, allowing for capital growth, progression and farm ownership for new farmers. It also fills a need of many existing farm owners. The system will continue to adapt, as it has from its origins in the mid-19<sup>th</sup> century (Buchanan, 2002).

There will be continuous turnover within sharemilking as people achieve or change their objectives. Sharemilkers will consistently need integrity, good business skills, strategic thinking and the ability to work hard. The end destinations and the pathways leading there may vary in future, but sharemilking is an important part of the dairy industry and will continue to be so (Buchanan, 2002).

## 2.2 South Africa

Sharemilking in South Africa is based on the New Zealand sharemilking concept, whereby the sharemilker provides the dairy cows, movable equipment and management, whilst the BEE commercial farmer provides the land with the necessary fixed improvements. The profits from milk and livestock sales are shared 50:50 by the sharemilker and the BEE farmer, and the scheme thus provides an equal financial return for both parties.

# 3 Value to South Africa and the dairy industry

The successful establishment of black emerging farmers as commercial businesses is not only important for the future of the agricultural industry in South Africa, but also for national food security and the ultimate realisation of government's strategic intention of developing and empowering previously disenfranchised farmers. The

ultimate achievement of the goal to develop emerging farmers would, among others, be measured by the extent to which emerging farmers are upgraded from subsistence to successful commercial farming.

However, there are formidable challenges: the risks associated with commercial

farming due to drastically changing and unpredictable climatic conditions, the high risk/loan criteria adopted by financial institutions, volatile and unpredictable markets, the continuing increase of production costs and the open and competitive market environment that the commercial farming sector is facing.

The sharemilking system gives new entrants to the dairy industry the opportunity to gain experience and build capital, in an effective manner, to enable farm business ownership. This ensures a continual rejuvenation of the dairy farming population by people (e.g. dairy farmers) who have, with determination and ability, proven themselves. In the process these people often push the boundaries and raise the standards of the whole industry.

Sharemilking works for a very simple reason. It benefits both parties in the agreement. When both the farm owner and sharemilker work with integrity and respect, it is the classic win-win situation. Both parties bring different assets and skills to the joint venture, share risks and benefits and are part of a larger system, which allows for progression in the industry.

There is also a high degree of interdependence between a land owner and a sharemilker, and this encourages both parties to have respect for each other. Apart from the land being 100% black-owned, professional management is retained and an environment is created for joint business decision-making, mentoring and training.

The nature of dairy farming is such that if a herd of cows is not managed well and attended to daily, the consequences can be severe in a business sense. There is always the possibility of livestock death, but a real risk is that if a herd of cows is not milked on a regular basis, they will simply stop producing milk and therefore stop generating an income for the farmer. Engaging a sharemilker rather than employing a manager means that a land owner has a greater degree of confidence in the motivation (business principles) of the people milking the cows as well as the transferring of skills to its members. Because of this, sharemilkers effectively take on significant responsibility, which also allows them significant involvement in the total farm management and the potential to have a (usually) positive effect on net farm income (Buchanan, 2002).

## 4 What is AgriBEE?

The purpose of this section is to give a brief overview of AgriBEE and how it can promote the establishment of black commercial dairy farmers.

Broad-Based Black Economic Empowerment (B-BBEE) is the South African Government's set of policies intended to bring about the involvement or participation of previously disadvantaged communities (PDCs) into the mainstream

economy. The definition of PDC is people of colour, women of all races and the disabled.

The same and similar requirements as those reflected in the policy document of the Department of Trade and Industry occur in the AgriBEE document. The objectives of AgriBEE Sector Code are to facilitate B-BBEE in the agriculture sector by implementing initiatives to include black

South Africans at all levels of agricultural activity and enterprises (Government Gazette, 2012) by the following:

- Promoting equitable access and participation of black people in the entire agricultural value chain
- Deracialising land and enterprise ownership, control, skilled occupations and management of existing and new agricultural enterprises
- Unlocking the full entrepreneurial skills and potential of black people in the sector
- Facilitating structural changes in agricultural support systems and development initiatives to assist black South Africans in owning, establishing, participating in and running agricultural enterprises
- Socially uplifting and restoring the dignity of black South Africans within the sector
- Increasing the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new agricultural enterprises, increasing their access to economic activities, infrastructure and skills training
- Increasing the extent to which black designated groups manage existing and new agricultural enterprises, increasing their access to economic activities, infrastructure and skills training
- Empowering rural and local communities to have access to agricultural economic activities, land, agricultural infrastructure, ownership and skills

- Promoting decent living and working conditions for farm workers
- Improving protection and standards of land rights and tenure security for labour tenants, farm workers and other vulnerable farm dwellers
- Addressing the inherently paternalistic nature of relationships associated with insecure tenure, by promoting more permanent forms of tenure, with the emphasis being on the transfer of ownership of land.

The implementation of AgriBEE will bring new challenges to the agricultural sector in South Africa during the next five to ten years. Currently there are various constraints that need to be addressed in order to bring about sustainable development. The creation of an environment that will provide the emerging commercial farmers with access to services and resources to create growth and prosperity by themselves is necessary. Access to training, markets, inputs, mechanisation services, credit and land are the main constraints for the establishment of black commercial farmers.

Government is committed to supporting communities in the rural areas (former homelands) to utilise their land for commercial farming purposes, to purchase suitable land for BEE, as well as to encourage emerging farmers to move up the ladder of development to commercial farming.

## 5 SWOT analysis

SWOT is an acronym for strengths, weaknesses, opportunities and threats. By definition, strengths (S) and weaknesses (W) are considered to be internal factors over which the farmer has some measure of

control. Also, by definition, opportunities (O) and threats (T) are considered to be external factors over which the farmer has essentially no control. A SWOT analysis was conducted to analyse the overall strategic

# Noromectin

## RANGE



**EFFECTIVE CONTROL  
AGAINST INTERNAL & EXTERNAL PARASITES  
IN CATTLE, SHEEP & PIGS**



PRODUCT: Noromectin Pour-On Reg. No. G 2735 (Act 36/1947) • Noromectin Injection Reg. No. G2734 (Act 36/1947)  
Noromectin Paste for horses Reg. No. G3069 (Act 36/1947)  
REGISTRATION HOLDER: Norbrook Laboratories SA (Pty) Ltd. Company. Reg. No. 1997/017920/07  
SALES & DISTRIBUTION: Biotech Laboratories (Pty) Ltd  
Tel: +27 (0) 11 848 3050 • e-mail: info@biotech.co.za

A0216/10/13

**BIOTECH**  
LABORATORIES (PTY) LTD  
VETERINARY

**Norbrook**

position of a BEE sharemilking business and its environment.

### Strengths/opportunities

- Availability of agricultural land to support land reform programmes/projects.
- Availability of potential black farmers to be engaged in the land reform and agricultural projects (farmers' co-operatives, farmers' associations, farmers' trusts, individuals, etc.).
- The sharemilking system could play a major part in enabling younger people to participate in dairy farming.
- Availability of white-owned agricultural land to be acquired and transferred to the land reform beneficiaries.
- Upgrading of the infrastructure of the farm.
- The win-win aspect of sharemilking contracts – its greatest strength.
- The recognition of the importance of sharemilking to the dairy industry and the fact that a number of sharemilking projects have been successfully implemented. This means that there is significant moral support for sharemilking.
- The culture of sharing information and the openness that exists is a highlight in South African dairy farming. A good example is the willingness of dairy farmers to participate in the Elite Dairyman Competition, and the educational, networking and benchmarking benefits that result from entering.
- The nurturing and training in the dairy industry, which is evident in local study groups.
- The knowledge and experience of commercial dairy farmers to effectively manage a highly technical dairy enterprise.
- Some of the lessees (commercial farmers) are interested in entering into joint venture agreements.
- Likely increase in the number of jobs to be created.
- Likely increase in crop yields and live-stock production.

### Weaknesses/threats

- The knowledge and experience of new BEE entrants to effectively manage a highly technical dairy enterprise are lacking. In order to increase their managerial ability, these farmers will have to acquire new technological and administrative skills that might differ substantially from what they are used to. It is therefore important that they receive training and extension to increase their skills, knowledge and technical competence in order to keep up with the changes.
- In many instances the BEE entrants are elderly people. It would take time for them to get technically trained. There is a need for a concerted drive to get younger people involved in existing and/or new projects.
- Individual communities sometimes lack a sense of ownership and commitment towards the effective management of the land because they have limited control over the land.
- The sharemilking arrangement with communities can be demanding. A farming enterprise that is not well set up or a land owner with unrealistic expectations can have a very negative effect on a sharemilker personally and also his/her financial situation.
- The large number of beneficiaries in the trust can complicate decision-making and development.
- Limited availability of capital for development and replacement of existing infrastructure.
- The use of high-value agricultural land for residential purposes would reduce the income-generation potential of the farms.
- Natural disasters (wind, rain, fire).
- Economic instability (politics, inflation, interest rates).
- Government (instability, policies).

# 6 Legal entities in South Africa

There are many aspects to consider when starting a business. One of these is choosing the most appropriate legal entity under which to register the business. Choosing the right format is an important part of setting up a business, especially since some forms of enterprise must be registered with the Registrar of Companies, and need to meet certain legal requirements.

There are several types of businesses that can be conducted in South Africa by individuals, partnerships (including limited partnerships), trusts, close corporations, companies or branches of foreign companies. The decision as to which is most appropriate will depend on numerous factors, including how the business is to be managed, the number of participants, the need for limited liability and tax transparency (DTI, 2014).

## 6.1 Sole proprietorship

There are no statutory regulations relating to registration of a sole proprietorship, except that proper books and records of trading activities must be maintained and a balance sheet and income statement must be submitted each year to the Receiver of Revenue, together with the owner's private tax return. In the event of insolvency of the business, the proprietor's private estate is liable to make good any deficiency in the business. Any income earned by the sole proprietorship is taxable in the owner's hands.

## 6.2 Partnerships

Any form of business, with few exceptions, may be carried out in South Africa by a partnership. However, the Companies Act prohibits any unincorporated company, association or partnership from having

more than 20 persons, except in the case of certain professional partnerships, such as lawyers and accountants, where there is no limitation on the number of partners. Formation by a written partnership is desirable but not essential, and verbal agreements are binding on the partners.

Partnerships are governed by common law and are subject to general principles of law of contract, but if a partnership agreement exists, it would then take precedence. Partnerships must keep proper books and records and submit a copy of the partnership balance sheet and income statement in support of each individual partner's personal annual tax return. No details of the financial position of the partnership need to be made known to the public.

## 6.3 Companies

A limited liability company, which may be public (name ends in Limited) or private (name ends in Proprietary Limited), will generally be the most suitable investment vehicle, since it allows great flexibility and can be used for joint ventures. There is no minimum equity capital requirement for companies. The following characteristics and requirements apply to each:

- Separate legal personality
- Limited liability
- An auditor must be appointed
- Profits remitted by way of dividends to an offshore parent company are not subject to withholding tax
- No necessity for any local shareholders or directors.

The registration of a new company takes two months, requires five proposed company names, in case the first name is deemed unsuitable by the Companies and

Intellectual Property Commission (CIPC), and full details of the shareholders and directors, namely names, addresses, dates of birth, certified copies of ID documents and shareholding percentages.

In many cases, the purchase of an existing shelf company may be more convenient. The shelf company may be adapted to suit the requirements of the new business.

Company registration must occur prior to the opening of bank accounts, registration for tax, regional levies and value-added tax (VAT), as well as the importing of machinery and raw materials.

### 6.3.1 Private companies

The private company is the most common vehicle for operating a business in South Africa and is identified by the words "(Proprietary) Limited" or "(Pty) Ltd" after the name of the company. There are no requirements to have a local director or shareholder. The articles of association of the company must restrict the right to transfer the shares of the company, must limit the number of members to 50, and must prohibit any offer to the public for the subscription of any shares or debentures of the company.

Copies of audited financial statements need not be lodged with the Registrar of Companies, nor need members be provided with half-yearly interim reports and provisional annual financial statements. Private companies must have a minimum of one member and at least one director. Directors are not required to hold qualification shares.

### 6.3.2 Public companies

Public companies are identified by the word "Limited" after the name of the company. A public company must have a minimum of seven shareholders but there is no limit

on the maximum number of shareholders. Directors need not hold qualification shares and need not be residents or nationals of South Africa. There are no requirements for a local shareholder. There is no restriction on the transfer of shares. The company must file its annual financial statements and interim reports with the Registrar of Companies, where they will be available for inspection by the general public during the Registrar's office hours. Public companies may raise capital from the general public and are capable of being listed on the JSE Limited. A minimum of two directors is required.

### 6.3.3 Incorporated companies

Section 53(b) Companies are identified by the word "Incorporated" or "Inc." after the name of the company. The Companies Act allows any private company to provide in its memorandum of association that the directors together with the company are jointly and severally liable for all debts and liabilities of the company incurred during their term of office. Certain professional persons, such as attorneys and accountants, who are statutorily prevented from enjoying limited liability, may incorporate a Section 53(b) company to regulate their affairs with the benefit of corporate existence and perpetual succession.

### 6.3.4 Branches of foreign companies

A subsidiary of a foreign company is regarded as a South African company. The legal liability of the parent company is limited to the amount of share capital committed (together with any guarantees provided to any individual creditors). With the exception of banking and insurance companies, any foreign company incorporated outside South Africa may establish a place of business and carry on its activities in South Africa, without being required to form a separate locally registered company. A branch of a foreign company is regarded

as an external company if it establishes a place of business or owns immovable property in South Africa, and must register as such.

The legal liabilities of a branch are not limited to the extent of its South African assets.

The establishment of a branch of a foreign company requires registration of that company as an “external company” within 21 days after establishing a place of business in South Africa. An external company need not have a South African resident director, nor is required to appoint a local board of directors, but must appoint a person resident in South Africa who is authorised to accept any notices served on the company.

A branch is obliged to lodge a certified copy of its Memorandum and Articles of Association (or other instrument defining its constitution) with the Registrar of Companies, as well as a sworn translation into English where appropriate.

Two primary requirements for a branch are:

- An annual audit, and
- Financial statements must be lodged with the Registrar of Companies. (Financial statements must also be lodged for the company as a whole. Exemptions renewable every two years, may be obtained in certain circumstances.)

In certain circumstances it may be more beneficial to register a South African company, for example, for an enhanced image or easier access to credit facilities. It may also be an advantage to obtain government contracts.

#### **6.4 Joint ventures**

Joint ventures are formed for carrying out some specific purpose. As joint ventures

are formed on an agreement between two or more parties, the joint venture may be constituted as partnerships and as such are subject to the common law relating to partnerships. Alternatively, the joint venture may take the form of a company, with investment by the non-resident participants in agreed proportions.

#### **6.5 Public-private partnerships**

A number of opportunities for joint ventures exist in South Africa, especially in public-private partnerships (PPPs). The use of PPPs to deliver public services is a relatively new process in South Africa. The approach to implementing and managing PPPs differs between government departments and different municipalities. In many cases, local authorities are keen to collaborate with investors in areas where they have limited resources and expertise in specific projects, such as those relating to developing infrastructure. There is also a need to create economic growth in an efficient manner, with consequent spin-offs of skills development and employment creation. Thus, the area of PPPs is expected to offer numerous opportunities for investors.

A PPP is usually a contract awarded by a public sector organisation or department to a private sector organisation or firm to carry out part of its service delivery or administrative functions. The private sector organisation assumes the associated risks of carrying out the function and, in return, it is paid a fee linked to certain performance criteria.

Government and the mining industry recognise that one of the means of allowing all to benefit from the exploitation of mining and mineral resources is by encouraging greater ownership of mining industry assets. Strategic joint ventures or partnerships are appropriate vehicles for this to occur.

## 6.6 Co-operatives

A co-operative is organised to provide a service to members, and in South Africa that service is commonly providing employment to members. The Co-operatives Act defines a co-operative as “an autonomous association of persons united voluntarily to meet their common economic and social needs and aspirations through a jointly owned and democratically controlled enterprise”.

Among other things, the new legislation aims to define the formation, registration, management and structure of co-operatives, as well as providing for the establishment of an advisory board to set policy for the development of such enterprises. The government sees the promotion of co-operatives as a means of alleviating poverty, and promoting equity and greater participation of black people, especially residents of rural areas, in the country's economy.

## 6.7 Trusts

A trading trust is a form of unincorporated business organisation created by a deed

under which property is held and managed by trustees for the benefit and profit of beneficiaries designated in the deed. The Trust Property Control Act governs all trusts.

Trading trusts are not widely used in South Africa today but may still be appropriate for certain types of businesses, for example property development enterprises.

The number of trustees of a trading trust is also limited to twenty persons in terms of the Companies Act. In general, a trading trust is not a separate juristic person distinct from its trustees. However, for income tax, VAT and transfer duty purposes, a trading trust may be treated as a separate person. Trustees require the authorisation of the Master of the High Court to act as trustees. Actions by trustees prior to the issue of such authorisation are void.

- Trust: the arrangement whereby property is transferred to another person or persons, the trustee(s), to be administered according to the provisions of the trust instrument (trust deed) for the benefit of the person or class of persons designated in the trust instrument.

# 7 How does sharemilking work?

## 7.1 Objectives

The overall objectives are as follows:

- To be involved in a financially sound commercial dairy farming operation through the assistance of a sharemilker
- To make optimal use of available natural and agricultural resources
- To create new and maintain existing job opportunities
- To render financial benefits to all the participants
- To assist in the training of workers and potential management personnel
- To enable the community/beneficiaries

to eventually operate and manage the dairy enterprise on their own.

## 7.2 Principles

The basic principles of the sharemilking arrangement are as follows:

- The parties involved contribute assets to the joint venture but retain individual ownership of these assets, and they jointly operate the business. A few assets may be purchased by the venture after it has begun operating, but the number of assets owned this way will be limited.

- Liabilities on assets owned individually are a responsibility of the individual parties. If an operating loan or line of credit is required, then either the joint venture can borrow the funds or the individual parties can borrow their required share and reloan that amount to the joint venture.
- Joint ventures have a specific term indicating how long the business relationship will last (e.g. 10 years).
- Done correctly, it provides an easy entry and exit mechanism and total liability protection to the parties involved.

As indicated before, selecting a business arrangement requires careful consideration. The way in which a business is organised, will often have considerable bearing on its ultimate success or failure. There are also definite legal and tax implications affecting each arrangement. For every individual situation and size of operation, there is some optimum form of business arrangement that should be employed. The objective, of course, is to ensure that the owner or owners of the business can maximise the personal and financial goals they have set for themselves with a minimum of difficulty.

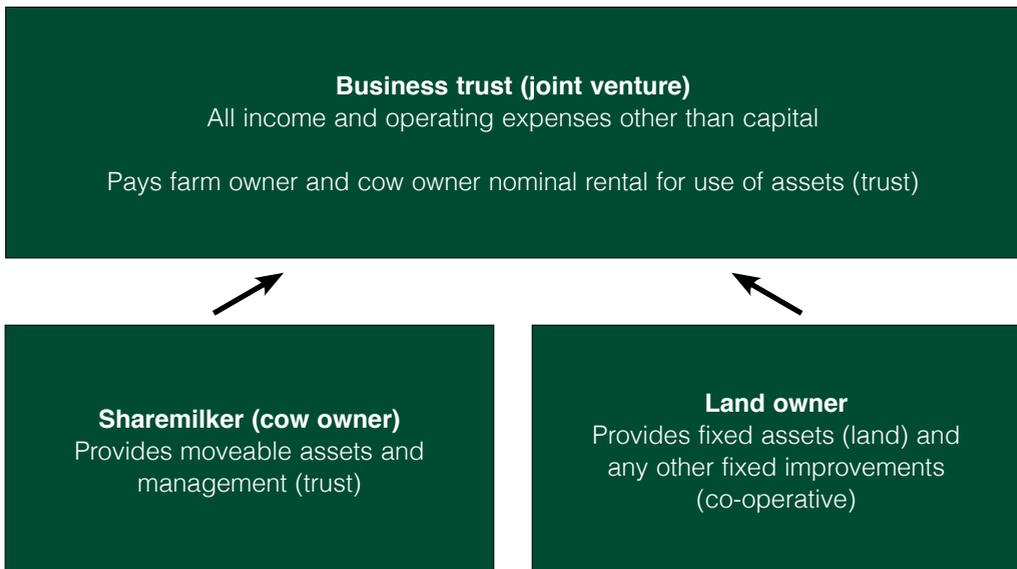
### 7.3 Legal entity

A farm business arrangement is an agreement between two or more people (e.g. legal entities) to combine their resources in a farm operation. This may involve the pooling or sharing of land, machinery, livestock, labour, expenses and income. However, many economic and social factors must be considered when an arrangement is established.

The legal entities that are normally used in sharemilking arrangements are operating trusts, private companies and co-operatives. See the example in Figure 1.

In the business trust shown in Figure 1, the trustees do not merely protect and manage the trust assets, but primarily use these for the carrying on of a business for profit in

**Figure 1: Joint venture structure**



order to benefit the trust beneficiaries or to further the aims of the trust.

The trustees are made up of two parties, the land owner and the sharemilker, who have equal control. An outside impartial trustee is appointed to help provide dispute resolution as well as strategic planning. Management usually remains vested in the cow owners.

The trustees meet regularly to discuss the business trust. The members can also attend these meetings so that they can see how meetings are conducted and how decisions are made in a professional manner.

**7.4 Capital contribution**

The capital contribution by the land owner and the sharemilker is probably one of the most debated topics when the joint venture agreement is negotiated. The capital expenditure for a dairy farm infrastructure is very high and there is normally an expectancy that the contribution by both parties must be equal. The assets that can be contributed to the joint venture are indicated in Table 1.

The management skills and experience contributed by the sharemilker and his/her manager, are very important. This is probably one of the most important factors that will ensure the success of this joint venture. Although it is difficult to determine the exact value of this contribution, it is suggested that this should equalise the asset contributions of the two parties.

**7.5 Financing the operation**

The business trust does not borrow any money because the two parties to the joint venture agreement must provide any capital needed.

The owners of the land are responsible for any fixed improvements needed and the cow owners are responsible for any moveable assets needed.

The business trust remaining without assets has major advantages when dealing with any creditor or other action against it.

**7.6 Profit sharing**

The business trust receives all milk income, as well as income from culled animals, and pays all agreed operating costs (fixed and variable), but not capital costs. These are for the account of each individual.

The business trust leases the land from the landowner and the moveable assets (livestock, machinery) from the sharemilker, at a nominal amount. The rental for the land (on the part of the landowner) and the movables (on the part of the sharemilker), shall be equal in value. This structure ensures that no partnership exists between the parties (Figure 1).

Each of the parties are beneficiaries of the business trust on a 50:50 basis and all profits over and above operating costs

**Table 1: Capital contribution by the joint venture partners**

Landowner	Sharemilker
Fixed assets (land, equipment)	Movable assets (tractors, implements, cows)
Working capital	Working capital
	Knowledge and experience

and lease payments are distributed to the parties in the joint venture. The profit in this case will be the net farm income, which is the balance remaining after all direct costs (variable costs) and indirect costs (fixed costs) have been deducted from the gross income. These distributions retain their nature and can be used by the recipients as farming income and in attending to their own tax planning.

By establishing a bank account for the business trust, the day-to-day handling of income and expenses for the joint venture is made simpler. The two parties will have their own bank accounts to pay for their expenses, debt servicing and capital purchases.

### 7.7 Accounting

For accounting purposes, a separate accounting system handles all transactions through the joint venture. In addition, both parties have an accounting system for their personal and business-related

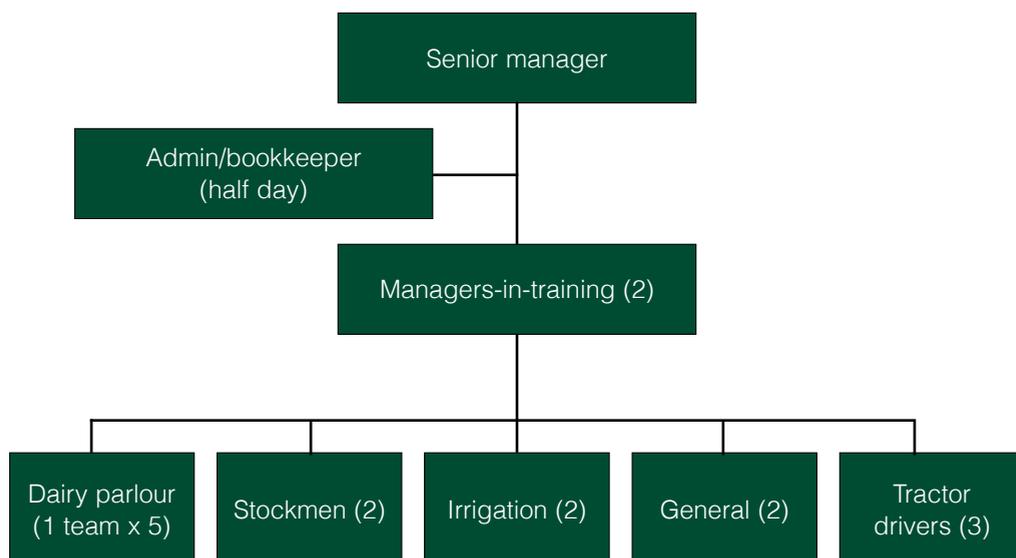
transactions through their separate bank accounts. This creates at least three accounting systems for the two-party joint venture.

The accounting system accounts for all flows of money between the two parties and the joint venture. At the end of each year, it is desirable to pay out any surplus in the joint venture to the two parties. Furthermore, it is important that a third accountant be appointed to do the books of the proposed business trust. However, it is very important that the following be considered when appointing such a person, i.e. knowledge of dairy farming, auditing capability and accessibility.

### 7.8 Management

As with any business, at least one person has to be in charge of managing the day-to-day operations of the business. As mentioned in 7.3, the business management usually remains vested in the cow owners.

**Figure 2: Business trust organogram**



The sharemilker will appoint a manager for the business in consultation with the land owner. Two "managers-in-training" from the landowner/community will be appointed. They will report to the senior manager, who will then report to the business trust committee.

Take note that these are only a few guidelines and that the details will have to be worked out by the two parties involved.

The beneficiaries or members of the community that are going to be employed will receive most of their financial benefits from the business through their salary and other compensation. The organogram of a typical dairy farm is explained in Figure 2.

- Dairy parlour – milking of cows and other activities in the dairy parlour
- Stockmen – responsible for stock health, AI, calf rearing and moving of cows and heifers between camps
- Irrigation – scheduling of irrigation and controlling of pumps
- General – general maintenance, i.e. repairs of fences and animal water reticulation
- Tractor drivers – responsible for land preparation, applying of fertiliser, cutting and processing of grass, etc.

## 7.9 Training

At the heart of most development programmes, whether they are orientated towards agriculture, health, nutrition or finance, is an attempt to bring about change in people. In educational terms, change may come about in people's knowledge, understanding, skills, attitudes and behaviour. The change should result in a person having an increased capacity to make decisions and to choose, implement and evaluate strategies effectively when utilising available resources.

Regarding the support of the new BEE entrants to agriculture, a key issue is to improve access to education and training. Presently, the regular agricultural schools and colleges are not offering training courses that are adapted to the specific needs of the new target group, and even if they would, they could satisfy only a small portion of the enormous need.

Various stakeholders can play a role in the training of the workers and the management component. All institutions that can provide the relevant training and outreach programmes will have to be identified during the implementation phase of the project. It should be possible for new stakeholders to become involved at any stage in the process, so that they can be involved as the programme evolves. It is very important for participating stakeholders to conduct training need assessments and to use the results for designing training programmes. Some of the stakeholders that have been identified are:

- The sharemilker and his manager(s) as mentor. They can fulfil a very important role as far as the in-service training of the workers is concerned.
- The MPO. It has developed skills-based training modules on essential dairy topics, which can be used for worker and management training courses.
- The Department of Agriculture. Although the need for agricultural support services is great, especially among the previously disadvantaged groups, there are serious budgetary constraints on what the government can offer.
- Universities and agricultural colleges. These and other related training institutions can play a very important role in the provision of short courses for the person(s) from the community that will be involved in the management of the joint venture.

# Curaclox

## Intramammary

**BEST SELLING**  
mastitis products\*\*



### Curaclox is a broad spectrum solution for the treatment of mastitis in cows:

**Curaclox DC Xtra** - Each 5.4 g syringe contains 600 mg cloxacillin and 300 mg ampicillin in a long-acting base.

**Curaclox DC** - Each 4.5 g syringe contains 500 mg cloxacillin and 250 mg ampicillin in a long-acting base.

**Curaclox LC** - Each 4.5 g syringe contains 200 mg cloxacillin and 75 mg ampicillin.

**COST EFFECTIVE**  
Mastitis  
therapy\*



\* Market leader - Q1 2013 SARR Scan \*\* Market survey conducted. Results on file.

PRODUCT: Curaclox DC Reg. No. G 2617 (Act 36/1947) • Curaclox DC Xtra Reg. No. G2690 (Act 36/1947)

Curaclox LC Reg. No. G2615 (Act 36/1947)

REGISTRATION HOLDER: Norbrook Laboratories SA (Pty) Ltd. (Reg. No. 1997/017920/07)

SALES & DISTRIBUTION: Biotech Laboratories (Pty) Ltd (Reg. No. 1990/007220/07)

Tel: +27 (0) 11 848 3050 • info@biotechlabs.co.za • www.biotechlabs.co.za

AK23/02/14

**BIOTECH**  
LABORATORIES (PTY) LTD  
VETERINARY

**Norbrook**

**The following are topics in which the new BEE entrants will be needing training:**

Technical subjects	
1. Dairy parlour routine <ul style="list-style-type: none"> <li>• Udder anatomy and physiology</li> <li>• Cleaning of udder strip cup procedure</li> <li>• Milking procedure and management</li> <li>• Milking parlour management</li> </ul>	8. Milking machine maintenance <ul style="list-style-type: none"> <li>• Components of milking machine</li> <li>• Correct cleaning procedure for milking machines</li> <li>• Servicing of machine</li> </ul>
2. Feeding of dairy cows <ul style="list-style-type: none"> <li>• Milking cows</li> <li>• Dry cows</li> </ul>	9. Milk tank maintenance <ul style="list-style-type: none"> <li>• Components of milk tank</li> <li>• Correct cleaning procedure for milk tank</li> <li>• Servicing of milk tank</li> </ul>
3. Feeding and management of heifers <ul style="list-style-type: none"> <li>• Digestive system of pre-ruminant calf</li> <li>• Rumen development</li> <li>• Calf housing</li> <li>• Weaning procedure</li> <li>• Calf feeding</li> <li>• Heifer management</li> </ul>	10. Milk quality <ul style="list-style-type: none"> <li>• Hygiene</li> <li>• Raw milk quality</li> <li>• Udder health prevention and control of mastitis</li> <li>• Machine milking</li> <li>• Milking equipment</li> </ul>
4. Artificial insemination <ul style="list-style-type: none"> <li>• Anatomy of reproductive organs</li> <li>• Physiology of reproductive organs</li> <li>• Heat spotting</li> <li>• Semen handling</li> <li>• AI equipment</li> <li>• AI technique</li> </ul>	11. Financial management <ul style="list-style-type: none"> <li>• Budgeting</li> <li>• Importance of record-keeping</li> <li>• Analysis of records</li> </ul>
5. Stockmen's course <ul style="list-style-type: none"> <li>• Handling of animals</li> <li>• Dehorning</li> <li>• Vaccinations</li> <li>• Removal of extra teats</li> <li>• Handling of difficult calving</li> <li>• Herd health</li> </ul>	12. Advanced management subjects <ul style="list-style-type: none"> <li>• Financial management</li> <li>• Personnel management</li> <li>• Bookkeeping marketing</li> </ul>
6. Physical record-keeping <ul style="list-style-type: none"> <li>• Records to keep</li> <li>• Method of record-keeping</li> <li>• Cow calendar</li> </ul>	13. Life skill topics <ul style="list-style-type: none"> <li>• Life skills</li> <li>• Literacy</li> <li>• 6M basic business skills</li> <li>• Occupational health</li> </ul>
7. Pasture management <ul style="list-style-type: none"> <li>• Grazing cycles</li> <li>• Irrigation fertilisation</li> <li>• Preservation of roughages</li> <li>• Measuring of pastures</li> </ul>	

Parallel to training and education, there is an urgent need for improving access of the BEE entrants to agricultural extension,

i.e. technical and economic advice of high quality, adapted to the specific conditions of this farming system.

# 8 How to implement a sharemilking project

## 8.1 Type of projects

The two opportunities that commercial farmers could get involved with are the following:

- The Department of Rural Development and Land Reform purchases the commercial farmer's farm or purchases a nearby farm for the farm workers or a group of beneficiaries in a trust, in order to start a sharemilking project
- The commercial farmer has identified a community in the former homeland areas with high-potential land and enough water to start a sharemilking project.

## 8.2 Identifying a suitable partner/community

The success of a joint venture will largely depend on the quality of your partners. It is therefore important to carefully select only communities/farm workers that the farmer thinks that he/she can work with.

In the case of farm workers, the farmer has already built up a good relationship with them and will know from experience if they would be able to work together effectively in the joint venture.

The first contact with communities is very important and a reliable person who is well known to the community should be used to introduce the farmer to the local chief and his people. The district/local municipality and the Department of Agriculture can be of great assistance in this regard.

Processes of negotiations where roles and ambitions of both parties are discussed and agreed upon, often characterise joint

venture partnerships. Most importantly, it is based on trust, transparency, equity and mutual benefits. There are a number of successful sharemilking projects in the Eastern Cape Province, and valuable lessons can be learned from their experiences.

## 8.3 Registering new legal entities (sharemilker and landowner)

There are various legal entities that can be used when setting up the joint venture agreement, but for simplicity's sake the example in the proposal will be used to demonstrate the entities and agreements that need to be established in order for this joint venture to function:

- A joint venture agreement between the sharemilker and the land owner, or a trust act for the joint venture (business trust).
- Valid lease of land to the joint venture.
- Valid lease in respect of livestock, plant and equipment to the joint venture.
- Management agreement with the sharemilker.

## 8.4 Stakeholders to be consulted

Various stakeholders can play a role during the planning and implementation of the sharemilking project. For example, the Department of Rural Development and Land Reform, Department of Agriculture, district and local municipalities, chiefs and communities are a good place to start. These are just examples, and all relevant stakeholders that can assist to make the joint venture a success, need to be consulted and invited to assist from the start.

Make sure that the person negotiated with fully represents the community or the farm workers regarding the planned joint venture.

It is of paramount importance for the sharemilker and the BEE entrants to visit existing sharemilking projects to gain firsthand experience/information about how to plan and implement such a project. This can literally save days of valuable time trying to explain the sharemilking concept to communities/farm workers.

### **8.5 Agreements/memorandums of understanding/contracts**

The business environment is full of agreements between businesses and individuals. While oral agreements can be used, most businesses use formal written contracts when engaging in operations. Written contracts provide individuals and businesses with a legal document stating the expectations of both parties and how negative situations will be resolved. Contracts are also legally enforceable in a court of law. Contracts often represent a tool that companies use to safeguard their resources.

Business contracts typically include a negotiation process in which various terms, to which each party must abide, are stipulated. The negotiation process may take days, weeks or months, depending on the contract and the contractual responsibility of each party. Contracts can also include a process for making changes or addendums to the agreement.

A legal person should be consulted for compiling the necessary agreements, memorandums of understanding (MOUs), trust deeds, etc. for the joint venture. The MPO can render assistance regarding people who can provide legal advice.

When the sharemilking contract expires in ten years, the trustees will have to decide whether to go for a new contract or farm for their own account. If they want to farm for themselves, they will have to employ their own farm manager.

### **8.6 Business plan**

A business plan for the joint venture needs to be compiled together with the inputs from the sharemilker and the BEE entrants.

Once completed, the sharemilker and the community/farm worker representatives must present the business plan to institutions that can provide financial assistance regarding installing the necessary farming infrastructure for the planned sharemilking project.

### **8.7 Financing the development and operation**

We are all aware of the fact that the entry and exit barriers to dairy farming are very high. The infrastructure for a new dairy farm is very expensive and it cannot be used for other enterprises once the dairy enterprise is stopped. Government normally provides financial assistance in the form of grants to the BEE entrants, for the infrastructure development and 50% of the working capital to establish pastures, etc.

The sharemilker will obtain credit from financial institutions for the purchase of the movable assets (cows, tractors and implements). The sharemilker can also use some of his/her own dairy cattle for the project.

The sharemilker normally has a good credit history with financial institutions and this can assist in getting access to finance for the purchasing of production inputs. The sharemilker manages the bank account with the necessary inputs from the trustees.

The following are some examples of institutions that can be contacted with regard to grant funding and loans:

- Department of Rural Development and Land Reform
- Department of Agriculture
- District and local municipalities
- Department of Economic Development, Environmental Affairs and Tourism
- Department of Trade and Industry (DTI)
- Independent Development Trust (IDT)
- Industrial Development Corporation
- Commercial banks
- Land Bank

## 9 Aspects to consider when entering into a sharemilking agreement

It is evident that one model of partnership (joint venture), whether successful, may not be used as a blueprint for partnerships elsewhere, due to the major differences that exist between regions, commodities, regulations and guidelines. However, certain key issues emerge that deserve attention, and lessons learned could be used to inform existing and future joint ventures/partnerships:

- It is clear that successful joint ventures are highly dependent on the active involvement of all stakeholders right from the planning stages and throughout the life cycle of the project. A prior assessment of what the communities anticipate in terms of benefits and what the sharemilkers expect, is a prerequisite. Due to the disparities in needs and motivations, it is necessary to have an entity with a mediating role between the sharemilker and the community. This role could be performed by a social facilitator from a non-governmental organisation or through a government agency.
- It is also important that policy guidelines be in place to support and encourage joint venture initiatives between the private sector (sharemilker) and local communities. Since land is the main investment capital in agriculture, a clear legal resource right should exist. This would boost the confidence of investors (sharemilker) and avert conflicts that may arise due to tenure insecurities.
- For the success of community-based joint ventures, it is imperative that a clear definition of the community that will be involved in the sharemilking project be obtained. Studies have indicated that where communities are lumped together in disregard of their common interests and shared values, it can become a breeding spot for conflict and disagreement.
- Sharemilkers also need to be aware of and recognise divergent views and opinions emanating from the community. Community support and involvement should not be taken at face value, as a community consists of members with different social and economic backgrounds.
- Identification of an appropriate legal framework for managing the common resource and benefits accruing from

the joint venture is vital. The entity, whether a trust, co-operative or any other representative body, should have clear roles and responsibilities and clear mechanisms need to be in place for accountability purposes.

- Communities also need to be aware of their opportunity costs so that they make informed choices. Rural communities have a high preference for invested capital as they attach more weight to a benefit in the present than one in the future, hence will tend to lean towards short-term investments at high discount rates.
- Commercial viability in agriculture demands sustained productivity, high levels of entrepreneurship, long-term commitment, resources and skills. Therefore, the training of new BEE entrants to dairy farming in appropriate technical and management skills is of paramount importance.
- Although it may be accurate to say that the community's major motivation for negotiating partnerships is because of the anticipated economic returns, strong aspirations normally exist for

acquiring skills and improving their own management and decision-making abilities. Hence their involvement in the management of their local resources should be encouraged. Social and economic empowerment of the rural communities is a common goal of community public-private partnerships (CPPP) initiatives.

- Land owners must be like-minded and have similar goals and objectives. They must be prepared to work as a team for the benefit of both parties.
- Ensure that the joint venture contract is signed before moving to the new "farm". That should ensure that there are no surprises. Get professional advice when writing up the contract.
- Surround yourself with knowledgeable people – bank manager, accountant, dairy consultant, veterinarian and lawyer.
- Contracts, housing and good conditions for staff are very important, especially in the rural areas. The sharemilker would like to attract good staff and have a low staff turnover.
- Don't over-extend yourself, either physically or financially.

## 10 Key aspects needed to achieve your goals

- Clearly defined, achievable, written goals – financial, business, personal
- Written business plan – even a very basic one
- Hard work and not being scared of new challenges
- Surrounding yourself with key people
- Excellent communication skills – it would be a bonus if the sharemilker and his manager can speak an African language
- Finding land with high potential for dairy farming and top dairy farmers with experience of sharemilking to learn from
- Identifying any areas you need to improve, e.g. pasture management, financial management (McIntosh, 2010).

# Noromectin

*Pour-On for Cattle*

**NO WITHHOLDING  
PERIOD FOR MILK  
INTENDED FOR  
HUMAN CONSUMPTION**



**FOR THE TREATMENT OF INTERNAL & EXTERNAL PARASITES**

PRODUCT: Noromectin Pour-On Reg. No. G 2735 (Act 36/1947)  
REGISTRATION HOLDER: Norbrook Laboratories SA (Pty) Ltd. Company Reg. No. 1997/017920/07  
SALES & DISTRIBUTION: Biotech Laboratories (Pty) Ltd  
Tel: +27 (0) 11 848 3050 e-mail: info@biotech.co.za

**Norbrook** 

**BIOTECH**  
LABORATORIES (PTY) LTD  
**VETERINARY**

# 11 Conclusion

The implementation of AgriBEE has brought new challenges as well as opportunities to the agricultural sector in South Africa. The purpose of this manual is to provide a basic guideline to dairy farmers who are interested in entering into a sharemilking agreement with his/her farm workers or a nearby community.

It is evident that the sharemilking model described in the manual, whether successful, may not be used as a blueprint for partnerships elsewhere due to the major differences that exist between regions, commodities, regulations and guidelines.

The underlying theme of sharemilking is participation in management and decision-making processes and more importantly, transferring of skills and a fair distribution of dairy farm benefits to both parties. As the government lacks capacity in terms of manpower and finances to support adequate development initiatives, facilitating joint ventures through policy and other avenues within their jurisdiction helps create enabling environments for investment, poverty reduction and ensuring that communities gain social and economic empowerment.

# 12 References

Buchanan, C., 2002. Sharemilking – A snapshot – 2002.

McIntosh, B. and McIntosh, C. 50/50 SHAREMILKING.

[www.side.org.nz/IM\\_Custom/ContentStore/Assets/9/57/556e725a280661f716d7554f4bb36212/50-50%20Sharemilking.pdf](http://www.side.org.nz/IM_Custom/ContentStore/Assets/9/57/556e725a280661f716d7554f4bb36212/50-50%20Sharemilking.pdf)

DairyNZ, 2012. Sharemilking in 2012. Modern approach to industry's traditional path. Inside Dairy is the official magazine of DairyNZ Ltd. It is circulated among all New Zealand dairy farmers and industry organisations and professionals.

Department of Trade and Industry (DTI), 2014. Business and Investment Entities. Website: [www.cipro.gov.za](http://www.cipro.gov.za) Visited 23 May, 2014.

Gardner, J., 2011. Sharemilking in New Zealand. Proceedings of the International Farm Management Congress Methven, Canterbury, New Zealand. ISBN 978-92-990056-7-5. Massey University, Palmerston North, New Zealand.

McIntosh, B. and McIntosh, C., 2010. 50/50 Sharemilking.

Ojwang, A., 2000. Community-company Partnerships in Forestry in South Africa: An examination of trends. A report prepared as part of the South Africa Country Study for the international collaborative research project steered by IIED: Instruments for sustainable private sector forestry.

PUBLICATION FOR THE DAIRY INDUSTRY



# the dairymail

As the official voice of the Milk Producers' Organisation, *The Dairy Mail* supports the South African dairy industry and the initiative of **the sharemilking guide.**

SOUTH AFRICA'S AWARD-WINNING DAIRY INDUSTRY MAGAZINE

