Best Institutional Practices for Farmworker and Community Equity-sharing Schemes in South Africa

By

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ABSTRACT

Farmworker equity-share schemes were initiated by the private sector in the Western Cape region of South Africa in the early 1990's as a method of redistributing farm assets to land reform beneficiaries while maintaining the viability of commercial farming operations. This study set out to identify the institutional characteristics of successful farmworker equity-share schemes in South Africa, and to discern a set of best institutional practices that will likely promote the success of future equity-share schemes. A detailed study of nine commercial farming ventures involving partnerships with farmworkers was undertaken in the Western Cape during November 2001 to explore relationships between their institutional arrangements, worker empowerment, management quality and performance.

Farmworker equity-share schemes (FWES) have received both positive and negative publicity. This thesis adds to the debate surrounding these land reform projects by comparing the results of case studies conducted by the Surplus People's Project in 1998 with more recent (2001) case studies. The latter suggest that many of the concerns raised by the Surplus People's Project, such as beneficiaries' participation and expectations, power relations between management and worker-shareholders, skills transfer and labour relations, have been addressed. The dissertation also highlights those issues that remain areas of concern, for example, beneficiaries' tenure security, literacy levels amongst worker shareholders, skill and wage differences between men and women, and exit

procedures.

A cluster analysis of variables measuring four constructs of a successful farmworker equity-share scheme, viz. sound institutional arrangements, effective worker empowerment, competent management and good performance, revealed positive relationships between these constructs. Best institutional practices identified by the analysis suggest that farmworker equity-share schemes should be operated as (or like) a company with voting and benefit rights proportional to individual shareholdings, but with restrictions on certain share transactions to prevent free-riding by non-workers and the loss of creditworthiness through sudden outflows of equity and managerial expertise. However, this positive relationship between best institutional practices and enterprise performance is dependent on effective worker empowerment (e.g. skills transfer and gender representation), good governance (e.g. external auditing) and competent management (e.g. schemes to reward worker performance and to resolve disputes).

From a policy perspective it is recommended that public land reform grants should be awarded only to beneficiaries of FWES that have been co-financed by a bank or reputable investor as this ensures a thorough financial assessment of the project, and only to projects that can demonstrate a history of good labour relations. It is also recommended that the Department of Land Affairs should consider extending its grants to regular but seasonal farmworkers who wish to participate in an established project. While farmworker equity-share schemes may not provide all of the answers to land reform they have an important role to play in redistributing wealth and de-racialising commercial agriculture in South Africa.

DECLARATIONS

I hereby certify, that unless specifically indicated to the contrary in the text, this thesis is the result of my own original work and has not been submitted for a degree at any other university.

Sharon L Knight

15 August 2003
Date

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INTRODUCTION

South Africa has a history of grossly inequitable land ownership. This legacy was formalized by the 1913 Natives Land Act, which restricted African land ownership to tribal homelands. In the homelands, land was administered by tribal chiefs and farmed under customary tenure. By 1991 the combined area of the homelands was 17.1 million hectares (NDA, 2000: 5) or approximately 13.9 per cent of the national area. It was estimated then that, 12.7 million people lived in the homelands (Baber, 1991: 54). To promote political stability and economic growth in South Africa it is essential that ownership patterns within commercial agriculture should change in a meaningful way without undermining the sector's productivity in the long-run.

In 1994 South Africa's new democratic government developed the Reconstruction and Development Program (RDP) to redress inequalities. The RDP emphasized land reform, expecting it to improve both agricultural productivity and the welfare of poor beneficiaries. The land reform policy aimed to encompass the three goals of land restitution, land tenure reform and land redistribution, with land redistribution as the main tool of the land reform program (Turner and Ibsen, 2000: 9). Early results of this programme were disappointing and fell far short of stated goals (Deininger *et al.*, 1999: 12). For example, land restitution and land redistribution together transferred less than 1.2 per cent of the area available for redistribution in KwaZulu-Natal over the six year period 1995-2000 (Lyne and Darroch, 2001). The slow pace of land reform has been attributed to two fundamental obstacles. First, it is not economically feasible to partition large commercial farms into much smaller, affordable units in situations where many resources are indivisible (e.g. packsheds, irrigation equipment and machinery) and the costs of surveying, transferring and registering sub-divisions are high (Simms, 1997). Second, prospective farmers lack capital and are unable to finance land with mortgage loans from commercial banks due to cash flow problems caused by relatively high inflation rates and low current returns to land (Nieuwoudt and Vink, 1995).

Faced with these problems, most of the disadvantaged people who have managed to acquire farmland have done so by pooling their meagre resources and purchasing farms collectively. More than half of the 94,160 hectares of commercial farmland acquired by disadvantaged owners in KwaZulu-Natal during the period 1997-2000 is co-owned (Lyne and Darroch, 2001). This trend is of some concern when viewed against the chequered history of cooperative farming models (Dorner and Kanel, 1977). However, South Africa has also seen the emergence of farmworker equity-share schemes (FWES) that might offer a viable alternative to traditional forms of co-ownership.

The objectives of this study are twofold: (a) to identify institutional and financial factors that influence the success of farmworker equity-share schemes using relevant theory from the body of New Institutional Economics (NIE) and data gathered from nine case studies of existing joint ventures, and (b) based on the factors identified, to determine what set of best institutional practices is most likely to promote the success of these schemes[1].

Between 1994 and 1999 the government offered a R15,000 (and later a R16,000) settlement/land acquisition grant (SLAG) to historically disadvantaged households who wished to acquire land on the market. In 1997 the Department of Land Affairs (DLA) allowed these grants to be used in the establishment of farmworker equity-share schemes (Graham and Lyne, 1999). In these projects the grant beneficiaries are permanent farm workers who purchase financial equity in, and hence part ownership and control of, the farm on which they work. They and the farmer then become shareholders in a joint enterprise, possibly with a third-party investor. Ideally, company management exercises exclusive use rights to the farmland with farmworkers obtaining voting and benefit rights (dividends and capital gains) in proportion to their equity investment. Mather and Adelzadeh (1997:11) describe farmworker equity-share schemes as *"a method of redistributing land without affecting the* (operation) *of individual farms or overall production levels; indeed, with better job satisfaction and greater participation, productivity should increase on farms where workers are also owners"*.

Growing doubts about the settlement\land acquisition grant programme saw a moratorium imposed on new grants in June 1999 and its eventual replacement by the Land Redistribution for Agricultural Development (LRAD) sub-programme in August 2001. LRAD aims to contribute to the redistribution of 30 per cent of the country's agricultural land over the next 15 years (Ministry for Agriculture and Land Affairs, 2000:

[1] Owing to the small sample size, a cluster analysis of 35 variables (rather than nine cases) was conducted to explore relationships between indicators of project performance, institutional arrangements, worker empowerment and management quality.

1). To qualify for LRAD's entry-level grant of R20,000 the applicant must contribute a minimum of R5,000 in cash, kind or labour towards a sustainable farming enterprise. A maximum grant of R100,000 can be accessed if the beneficiary is able to contribute R400,000 in savings and loan finance (Ministry for Agriculture and Land Affairs, 2000: 4). Early drafts of the LRAD sub-programme excluded equity-share schemes and focused on emerging farmers who would purchase and manage small farms of their own. Although the grants have again been extended to FWES, the concept of land reform through equity-sharing is still widely debated. Originally recommended by McKenzie (1993), the first scheme was established in 1992, and its initial assessment was positive (Eckert *et al.*, 1996). However, a more recent study undertaken by the Surplus People's Project argues that the schemes are simply a convenient way for commercial farmers to leverage cheap capital, increase productivity and eliminate strike action (Fast, 1999: 1).

Due to delays in implementing LRAD, the government has made very little progress with land redistribution since 1999. For example, in KwaZulu-Natal only 2,133 hectares of the available land was purchased with grants in 2000 compared with 14,727 hectares in 1999 (Lyne and Darroch, 2001). However, private transactions between white land owners and disadvantaged buyers have continued to redistribute land at a faster rate without government assistance (Lyne and Darroch, 2001).

LRAD represents an important shift in government policy away from group settlement and towards individual owner operators. Nevertheless, this study is relevant because co-ownership will continue to pose a challenge in the transition of South Africa's commercial and communal farming sector for three main reasons. First, many of the group settlement schemes that were created under the government's settlement/land acquisition grant programme have succumbed to weak institutions. The Department of Land Affairs was not always able to ensure that diverse groups of beneficiaries would devise and enforce rules to manage their communal resources. In the virtual absence of rules governing use or benefit rights, some of this land has become an open access resource with individuals unable or unwilling to finance improvements and inputs (Pitout *et al.*, 1998: 47). The beneficiaries remain poor as their current returns to land are low and they cannot realise the capital value of their land as it is no longer marketable. This situation is unlikely to improve unless the institutional foundations of these projects are redesigned. Similar conditions prevail in many of South Africa's former homelands where high quality natural resources are poorly utilized because the communities who share these resources face institutional and financial problems such as insecure land tenure (Lyne and Nieuwoudt, 1990) and lack of access to affordable credit (Kirsten *et al.*, 1996; Fenwick and Lyne, 1999).

Second, most land currently farmed by the state and its agents is contested by neighbouring communities. The notion that this land should be subdivided and privatised to individuals who benefit from LRAD grants has been strongly rejected by these communities who perceive that all of their members should benefit from the land (Greene and Lyne, 2001).

Third, large commercial farms are expected to remain a predominant feature of South

African agriculture (owing largely to the reality of lumpy resources and fixed transaction and subdivision costs) and it is therefore crucial that new ways are found to improve rural livelihoods and access to land on commercial farms through new ownership structures. Changing the ownership structure of commercial farms can redistribute wealth without adversely affecting agricultural productivity, farmworker employment or sacrificing economies of farm size (Eckert *et al.*, 1996).

In all of these circumstances, equity-sharing may offer a useful way of dealing with free-rider problems that tend to undermine the performance of cooperative and collective enterprises built on shared resources. This research is particularly important for KwaZulu-Natal where approximately 40 per cent of rural land is owned by the state (KFC, 1995: 49). Some of this land is farmed commercially by government agents and white tenants but most of it is occupied under customary forms of land tenure and is characterized by poverty and under-investment despite a wealth of opportunities in farming and eco-tourism enterprises. Equity-share projects may provide a way of creating an institutional environment that will attract the expertise and investment needed to take advantage of the opportunities that exist.

The thesis is presented as follows: Chapter 1 describes the sampling technique used to select nine farmworker joint ventures for case study, and summarises key features of each enterprise. Relevant literature is reviewed in Chapter 2 with discussion focusing on the observed outcomes of collective ownership of farms in South Africa and the important relationship between their institutional arrangements and performance. Chapter 3 discusses recent perceptions of farmworker equity-share schemes and how these perceptions have changed over a three-year period, and chapter 4 uses cluster analysis to distil a set of "best institutional arrangements" for farmworker equity-share schemes. The thesis ends with management and policy recommendations for land reform projects involving co-ownership of resources in South Africa.

CHAPTER 1

SELECTION AND DESCRIPTION OF THE FARMWORKER JOINT VENTURES STUDIED

In 1998 it was estimated that around 50 equity-share schemes had been initiated in South Africa, mostly in the Western Cape wine and fruit producing areas (Lyne *et al.*, 1998: 2) where high land prices, lack of access to finance and markets, and lack of management and business skills create barriers to the entry of new farmers (McKenzie, 1993). The establishment of equity-share schemes has provided an alternative form of access to these high-value agricultural enterprises. This chapter introduces nine farmworker joint ventures studied in the Western Cape during November 2001. Data gathered from these case studies are used later to explore relationships between their institutional arrangements and their performance, management quality and empowerment.

1.1 Selection of case studies

The research for this project was undertaken November 2001 in the Lutzville, Elgin, Paarl, Piketberg and Stellenbosch regions of the Western Cape. Nine established farmworker joint ventures producing deciduous fruit, wine, citrus, olives and vegetables were selected as case studies. The enterprises were selected to ensure variation across a number of known indicators, such as use of external finance, size and gender composition of beneficiary group, relative shareholdings of farm workers, and choice of legal entities and business organization. The sample was designed to control, where possible, for non-institutional determinants of financial performance such as enterprise type and geographic region. However, actual financial performance was not known *a priori,* but based on anecdotal evidence, efforts were made to select enterprises ranging from poorly performing to the more successful. The final choice of projects was constrained mainly by the fact that few of the 21 FWES identified in the Western Cape had been operating for more than one year with their current set of institutional arrangements. In addition, some managers were not available at the time of the study and, in two cases, the managers refused to participate.

In-depth interviews were conducted with the manager (frequently, the previous farm owner), worker trustees, external financiers, local officials from the Department of Land Affairs, and the firms contracted to help with project planning, training and facilitation. Interviews with the manager and worker trustees were conducted using a structured, open-ended questionnaire (Appendix 1) to examine institutional arrangements and their impact on internal rules, practices, management, compliance, incentives, and access to finance. Interviews with external financiers, local officials from the DLA and the firms contracted to help with project planning, training and facilitation were less structured and explored project-specific problems. Open-ended questionnaires are used when all possible answers to a given question are unknown, when the number of possible responses is very large or when it is important to get the respondent to think about the answer to the question and not simply choose between a number of possible alternatives (Martins *et al.*, 1999: 229). According to Harling and Misser (2000), the presentation of a case study requires creating a structure, describing the facts (in chronological order) and reporting relevant dialogue.

1.2 Description of case studies

1.2.1 Bugler's Post

Bugler's Post is a fruit and flower (proteas) farm situated approximately 15 km from the town of Piketberg on the Piket Mountain, 150 km north of Cape Town. The farm was converted into an equity-share project in mid-1998 and a new company was registered at the beginning of 2000. Forty-two beneficiary households, comprising 66 individuals (55 per cent are women), formed a workers' trust. The trust purchased a six per cent share in the company with DLA settlement/land acquisition grants. The original farm owner holds the remaining 94 per cent of the equity in the company. The company owns and manages the farm. Figure 1 shows some of the worker-shareholders sorting proteas, and Figure 2 a scene of pear orchards on the farm.

Figure 1: Women sorting proteas at Bugler's Post

The company earns approximately 20 per cent of its gross income (an estimated R1,500,000 in 2001) from local sales and 80 per cent from export sales. Currently only 40 per cent of output is packed or processed on the farm but this will increase to 90 per cent in the near future as a large pack shed has recently been built for this purpose.

Bugler's Post is expanding its production of proteas, a lucrative cash crop that provides a buffer against dips in fruit prices. Proteas allow for the efficient use of poor soils and assist in avoiding replant disease in apple and pear orchards.

The manager and worker trustees were very enthusiastic about the project, and seemed satisfied with progress made since the project commenced. A long-standing relationship between members of the neighbouring community who have worked on the farm since the Ince family first owned it has contributed to a high level of trust within the project. The community is very stable, and its people have a strong sense of belonging. There is a general consensus amongst beneficiaries that the project must provide for their retirement and should not be seen only as a mechanism to supplement their wage income.

Figure 2: Pear orchards at Bugler's Post

1.2.2 Cape Olive

Cape Olive is made up of six farms located in the foothills of the Drakenstein mountain range, approximately ten kilometres from the town of Paarl. The business was established by the Costa family, who have been farming olives in South Africa since 1925 and who introduced olive farming to South Africa. The area is ideally suited to olives as it has deep soil, low humidity and a warm climate. There are dramatic differences in altitude between the various farms, enabling Cape Olive to grow up to 20 different cultivars of olives. Cape Olive became an equity-share project in 1997.

Thirty-four beneficiaries (59 per cent are women) from 29 households formed a workers' trust to represent their interests in the project. Beneficiaries' shares in the workers' trust were funded with DLA settlement/land acquisition grants. The enterprise itself is also registered as a trust, Cape Olive Trust, with two companies as its members - Cape Olive

Holdings and Cape Olive Properties.

There are three shareholding groups, namely NewFarmers Development Company (79 per cent), the Costa family (17.5 per cent) and the workers' trust (3.5 per cent). The shareholder groups own the holding company. In turn, Cape Olive Holdings owns all of the shares in the land-holding company, Cape Olive Properties. Cape Olive Trust manages the farm under a sharecropping agreement with Cape Olive Properties.

Cape Olive earns an estimated 99.5 per cent of its gross income (R15,000,000 in 2001) from olives and the remainder from grapes. All of this income is derived from local sales but, in future, Cape Olive hopes to enter the export market under the trade name *Buffet Olives*.

The motivation behind this project was to give the farmworkers at Cape Olive a financial stake in the business, capacity to influence decision-making on the farm, and an opportunity to acquire the business and financial management skills that they would need to become entrepreneurs in the future. From the outset, the focus of this project has been on social upliftment rather than short-term land reform. The manager is also interested in trying to find a way of including casual workers in the project as many of them return to their seasonal jobs every year.

Low levels of literacy posed a major challenge in facilitating the equity-share project. To start with, the problem of alcohol abuse had to be dealt with. A system of breathalysing each worker at random times of the day was introduced and persons found to have been drinking alcohol were fired. A common language had to be adopted to explain the project to workers in simple terms. Workshops were held to explain the provisions of the Basic Conditions of Employment Act, Act 75 of 1997. The farm then established its own labour policy, defining rules of conduct for management and workers.

In 1994 the workers financed a "Spaza" shop (Figure 3) with funds remaining from their pooled settlement/land acquisition grants. The shop has reduced travel costs (to purchase basic necessities) and earns a small monthly income for the workers' trust. The workers' trust has also raised a loan from Cape Olive and, with expertise from the University of Stellenbosch, has started a fish project (Figure 4). Both workers and management attribute the success of this project to mutual trust and transparency.

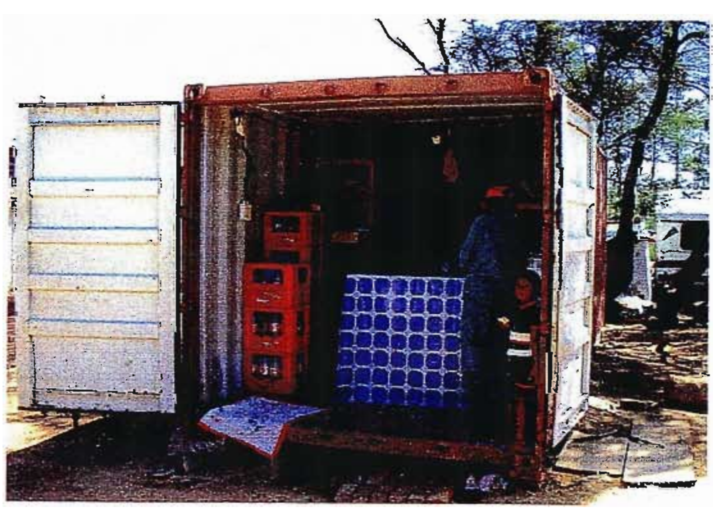

Figure 3: Spaza shop at Cape Olive

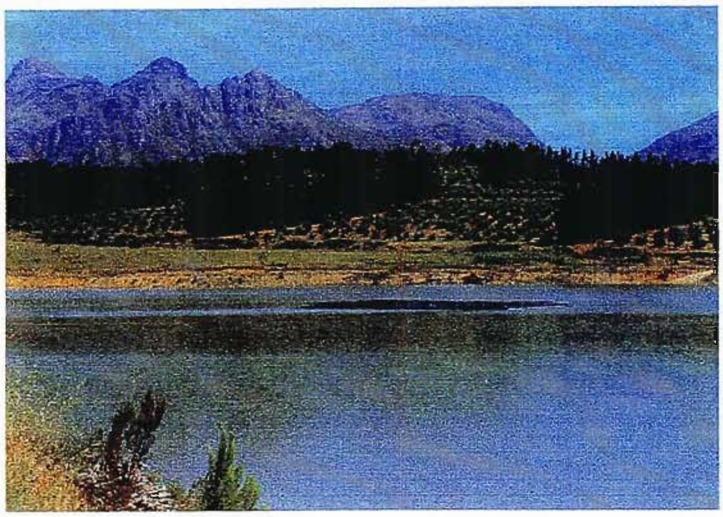

Figure 4: Workers' fish project with olive trees in the background

1.2.3 Erfdeel

Erfdeel is a table grape, citrus and wine grape farming enterprise situated 18 km north of the town of Piketberg and approximately 170 km north of Cape Town. Figures 5 and 6 offer the reader a view of this picturesque farm. The farm was converted into a farmworker equity-share scheme in 1997. Compared with other projects studied, this project took the shortest length of time (seven months) to facilitate.

Worker beneficiaries include 24 households, comprising 36 individuals (39 per cent are women), who have established a workers' trust. The workers' trust initially purchased a six per cent share in the Erfdeel Farming Trust (EFT) with SLAG funding but this has since increased to 20 per cent through a loan from Khula Enterprise Finance. There are two other shareholders, namely NewFarmers Development Company with 60 per cent and the farm manager with 20 per cent.

The project was initiated by the farm manger who approached the farmworkers at Erfdeel with a proposal that they become co-owners of Erfdeel farm. NewFarmers agreed to become a third party investor in the project. The landowner was approached with an offer for the farm, which he accepted, and ownership transferred to the Erfdeel Farming Trust. EFT therefore owns and controls Erfdeel Farm.

In addition to grapes and citrus, Erfdeel has potential for livestock and vegetable production. The farm has a relatively low risk profile in that it was purchased as a profitable concern, has a diversified enterprise mix, an experienced general manager and competent worker-shareholders. EFT earns an estimated 60 per cent of its gross income from wine and table grapes (31 hectares) and 40 per cent from citrus (35 hectares). Almost 90 per cent of this gross income is earned from export sales. At the end of the last financial year (2001), EFT had a gross income of approximately R3,500,000. The ultimate aim of this project is to source a foreign investor and then to market the project's output under an empowerment label on the overseas market.

Figure 5: Erfdeel orchards with Piketberg mountain behind

Figure 6: Entrance to Erfdeel farmworker equity-share scheme

1.2.4 Fair Valley

Fair Valley is an 18 hectare farm between the towns of Stellenbosch and Paarl. This farm, adjacent to Fairview Estate, came up for public auction in June 1997. The owner of Fairview Estate contacted the Department of Land Affairs with a request for settlement/land acquisition grants for his employees to purchase and settle on Fair Valley.

The original plan was for the beneficiaries to plant vines on their own land, make wine in the Fairview Estate winery, and market the product under their own label, "Fair Valley". While waiting for their vines to bear, the workers would buy in grapes from Fairview Estate. This would allow them to establish their label and provide immediate cash flow for their housing development.

After purchase in 1997, the land was found to be completely unsuitable for any form of agriculture. Furthermore, the road adjoining Fair Valley was declared an agri-tourism route, restricting further development of housing there (Figure 7). The local Council has refused permission to sub-divide the land and no more (than the current eight) houses can be built. The 52 workers involved in the project (54 per cent are women) are represented by a communal property association (CPA). Most members are generally very despondent about the lack of progress. The Council's decision is presently being challenged in court. In the meantime the members of the CPA have continued to buy in grapes from the cheapest source and to make wine in the Fairview Estate winery (Figure 8). All profits from this processing operation are being retained to finance new houses once permission is granted to resume building. This farmworker joint venture is the only one of the nine case studies that is not an equity-share scheme.

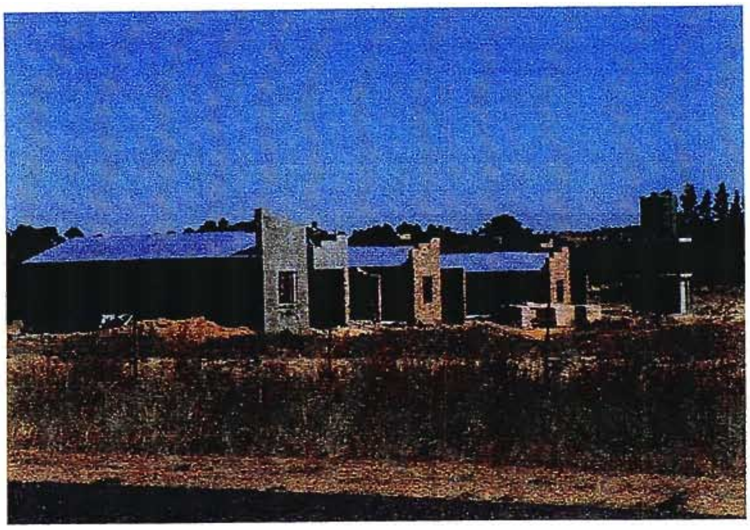

Figure 7: Fair Valley housing project

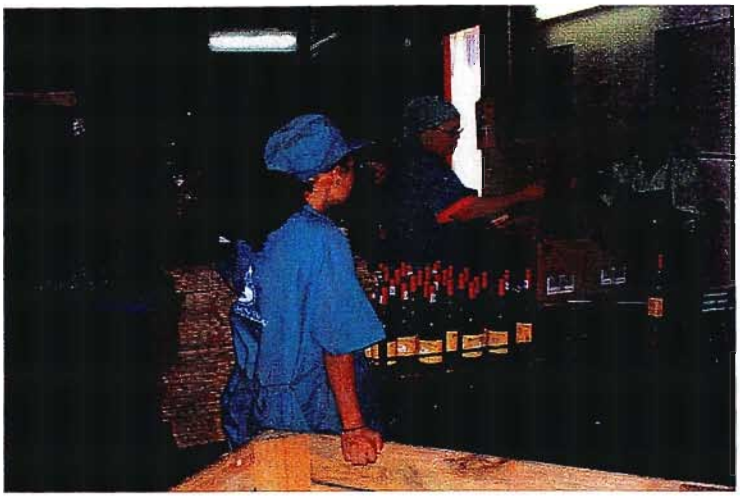

Figure 8: Fair Valley wine being bottled at Fairview Estate

1.2.5 Iona

Iona (the Celtic word for "equality") is a farmworker equity-share scheme producing apples, pears and wine grapes (Figure 9) on the farm Geelbeksvlei in the Elgin district, approximately 150 km east of Cape Town. Efforts to convert the farm into an equity-share project began in 1997 but delays in the payment of grants awarded under the SLAG programme meant that workers were not issued with shares until 2000 when the grants were received. A company owns and manages the farm.

The company purchased Geelbeksvlei farm in 1997 as a viable apple and pear enterprise. In the same year apple prices fell sharply. In order to survive, the farm began to replace some of its deciduous fruit orchards with vineyards. This decision was vindicated in 2001 when Iona's Sauvignon Blanc won two awards, namely, a first class listing from South African Airways (SAA) and a Wine of the Month rating. The SAA panel comprises of six local and six international judges, and is generally accepted as being South Africa's premium wine award. The same wine was also one of three Sauvignon Blancs chosen for South Africa's first six star hotel, The Western Cape at Arabella, in a blind tasting of top Sauvignon Blancs.

Forty-eight worker beneficiaries (56 per cent are women), from 41 households, established a workers' trust to represent their interests in the company. SLAG funds received in 2000 enabled the workers' trust to purchase a five per cent share in the company. Ownership of the company is now split four ways with the original owner holding 50 per cent of its shares, his wife five per cent, the workers' trust five per cent and an offshore investor 40 per cent. The company earns an estimated 80 per cent of its gross income (R3,100,000 in 2001) from apples and pears (40 hectares in total) and 20 per cent from wine. Roughly 30 per cent of gross income is earned from local sales and 70 per cent from export sales.

Due to the long delay in payment of grants, workers were initially very disillusioned with the project. There is strong consensus amongst the company's directors that *"the government is not interested in land reform, as they drag their heels all the way"*.

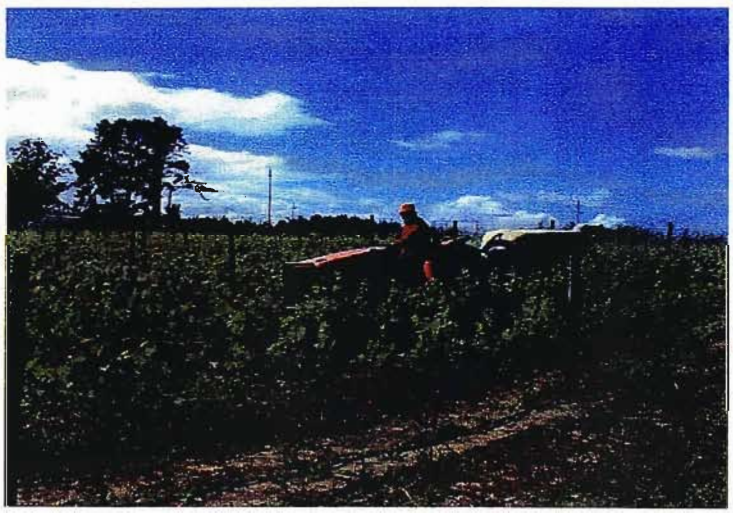

Figure 9: Chairman of the workers' trust (senior spray supervisor) spraying the vineyard at Iona

1.2.6 Kleinbegin

Kleinbegin ("small beginnings") is a deciduous fruit and citrus farm situated approximately 24 km from the town of Piketberg on the Piket Mountain, 150 km north of Cape Town. The farm was converted into an equity-share project in 2001.

A neighbouring tenant farmer purchased Kleinbegin in 1999 on a public auction when it was declared insolvent. The decision to purchase the land was taken in consultation with the tenant's employees and those of Kleinbegin who were willing to apply for settlement/land acquisition grants and to enter a joint venture as equity partners. The farm was paid for by the tenant who raised a personal mortgage loan against the property Kleinbegin. Unfortunately, the SLAG programme was suspended shortly afterwards and the farm was operated as a sole proprietorship for the next two years.

Seventy workers (54 per cent are female) accessed the DLA's new Land Redistribution for Agricultural Development grants and a loan from Khula Enterprise Finance in 2001. This enabled the workers' trust to purchase a 49 per cent share in a land-holding company and a 49 per cent share in an operating partnership. This organisational arrangement was chosen primarily for its tax advantage. The original owner can offset expenditure in this project against income from his leased farm, Achtervlei. The operating partnership has a long-term lease agreement with the land-holding company. Cash remaining from the LRAD grants after purchasing the workers' shares was loaned to the operating partnership. Interest earned from the loan will be paid in the form at least two new houses constructed for beneficiaries each year. Due to the difficulties in obtaining permission to sub-divide agricultural land, the beneficiaries will sign 99-year lease agreements for their houses. These contracts will be registered against Kleinbegin's title deed to provide tenure security.

Approximately 80 per cent of the project's gross income (R850,000 in 2001) is earned from stone and pome fruit (16 hectares), and 20 per cent is earned from citrus (12 hectares). Of this gross income, 70 per cent comes from local sales and the remaining 30 per cent from export sales.

The decision to co-own Kleinbegin was a logical consequence of a human development project initiated on Achtervlei in 1981. The programme began by targeting alcohol abuse and domestic violence. All employees have received training in life skills, including domestic financial management, farm management and technical skills. Productivity on Achtervlei increased substantially and co-ownership of Kleinbegin was seen as a way of redeploying surplus labour capacity at Achtervlei. Figure 10 pictures the worker trustees posing in front of an established orchard.

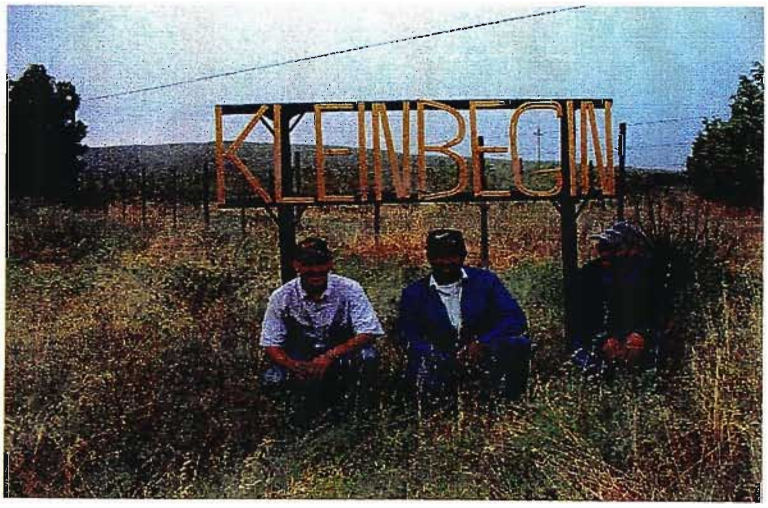

Figure 10: Kleinbegin trustees (foreground) and orchard (background)

1.2.7 Lu Tour

Lu Tour is a vegetable and wine grape farm situated near Lutzville, approximately 350 km north of Cape Town. It was established on virgin land in 1998 and involved the building of an 80 hectare irrigation dam on the Olifants River. The enterprise was converted into a farmworker equity-share scheme in 2000.

There are 27 worker-shareholders (33 per cent are female) who also work on neighbouring farms that belong to two commercial farmers involved in the project. The workers are represented by a workers' trust. The trust applied for LRAD grants on behalf of the workers but their application had not been assessed at the time of study. In the meantime the trustees raised a loan from the South African Wine Industry Trust (SAWIT) to help finance a 40 per cent share in Lu Tour. The loan is to be re-paid when the grant is awarded. The workers' share was co-financed with a subsidy paid by the Department of Water Affairs and Forestry to construct the irrigation dam. The farm is now owned and managed by a company that has three shareholders - the workers' trust with 40 per cent, a third-party investor with ten per cent and two commercial farmers with a combined share of 50 per cent.

Current cash needs are being met from short-term vegetable crops but the company has also established 300 hectares of noble wine cultivars for future income. Should quality expectations be realised (surveys indicate that the site is matched only by Groot Constania for its grape ripening conditions) the company will endeavour to build its own wine cellar. In 2001 Lu Tour earned all of its gross income (R2,500,000) from local sales of vegetable crops. Unfortunately, the enterprise has been adversely affected by a downturn in the local economy where its bulky and perishable products (Figure 11) are sold.

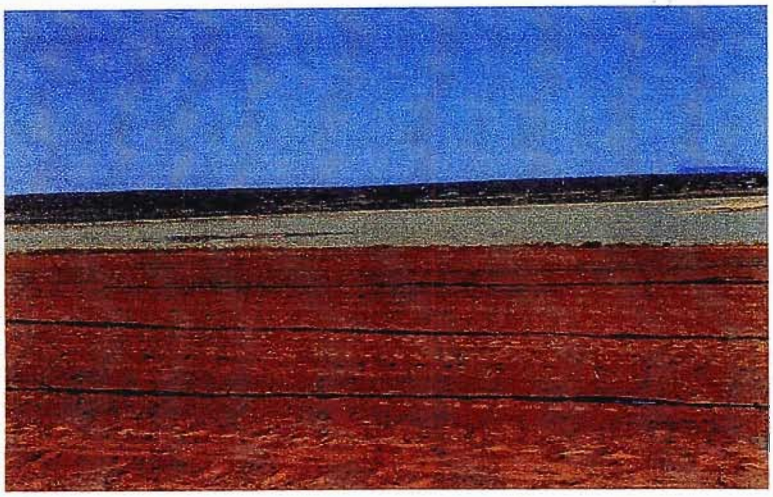

Figure 11: Newly planted tomato plants at Lu Tour with irrigation dam in background

1.2.8 Nuutbegin

Nuutbegin ("new beginnings") or Helderberg Vineyards as it is also known, is a 28 hectare farm planted to wine grapes and situated in the Devon Valley near Stellenbosch. The land is owned by the Stellenbosch Municipality and **leased** by the owners and workers of two neighbouring farms, Waterkloof and Fransmanskraal.

Nuutbegin was converted into a farmworker equity-share scheme in 2001 and is farmed as an operating partnership between two parties, namely the owners (who are also brothers) of the two neighbouring farms Waterkloof and Fransmanskraal, and a trust representing the interests of 72 workers who live on these two farms. Each partner holds a 50 per cent share in the enterprise. This legal arrangement is the most tax efficient for the brothers who can offset income earned on their own farms against expenditure on the equity-share project. The workers' trust financed their 50 per cent share in the partnership with LRAD grants received in 2001.

Nuutbegin is in a unique position. The operating partnership has secured a 50-year lease (43 years remain) on the 28 hectares of land from the Stellenbosch municipality at a nominal rental of R16,000 per year. It is purely because of this inexpensive lease that the project is expected to generate substantial profits after just three years of operation. If the land had to be purchased or rented at market rates the project would be illiquid. The average lifespan of a vineyard is 25 years and with 43 years remaining on the lease, virtually two full rotations should be harvested. Stellenbosch Vineyards indicated that they would buy the entire grape harvest which is likely to fetch a higher than expected price per ton due to the demand for "empowerment wine". After further negotiations, Stellenbosch Vineyards also agreed to provide processing facilities for the grapes. In order to establish a long-term alliance, it was decided that the processing facility would be secured through an investment in Stellenbosch Vineyards. This company will issue debentures to the workers' trust, bearing interest at ten per cent per annum, that can be converted into equity after a period of ten years. The balance of the LRAD grant, i.e. that part not used to finance equity in the partnership, will be invested in this way. Through this arrangement, the project will not only acquire guaranteed access to a winery, but will also generate immediate cash income for the workers' trust (approximately R1,000 per individual per year).

According to the owner of Fransmanskraal the motivation for the project lay in the long-standing relationship between the brothers and their workers, many of whom are fifth generation employees. The owners of Waterkloof and Fransmanskraal wanted to give their workers an opportunity to increase their incomes through higher productivity rates. The partners are very enthusiastic about their joint venture. The brothers are financially sound and experienced farmers. One of them is a prominent personality in the wine industry and serves on numerous boards of directors. Their participation in this project is likely to have a powerful demonstration effect in the wine industry. Further, Nuutbegin demonstrates that access to economic opportunities in agriculture does not require ownership of land, but rather secure rights to benefit from expert management of land. Figure 12 shows a trustee posing in a recently established vineyard.

Figure 12: Chairman of the workers' trust kneeling in newly planted vineyards at Nuutbegin

1.2.9 Thandi

Thandi (also known as the Lebanon Fruit Farmers Trust) is situated in the Elgin Valley, approximately 60 km east of Cape Town. The project came about in 1995 when the owner of a commercial farm, de Rust Estate, and the State forestry company, SAFCOL, together donated 180 hectares of land to establish a joint venture with farmworkers and a neighbouring community. The name of the project, Thandi, means "with love we grow together".

Shares held by the black community in the venture were distinguished from those held by workers to represent the different interests of community members (all families living in the SAFCOL village) and people employed by the project. The workers are all members of the community, but not all community members work on Thandi. Hence there are four shareholders in Thandi - SAFCOL (33.3 per cent), de Rust Estate (16.6 per cent), the community trust (33.3 per cent) and the workers' trust (16.6 per cent). Twelve worker-shareholders make up the workers' trust. The community trust has 148 members, including the worker-shareholders.

Thandi grows 32 hectares of apples, pears and plums and 14 hectares of wine grapes. At present the project earns an estimated 90 per cent of its gross income (R1,200,000 in 2001) from apples, pears and plums and ten per cent from buying in grapes and processing wine (this will continue until Thandi's own grapes come into production). The wine, "Thandi", is sold as an empowerment wine and receives a premium price in certain overseas markets. Figure 13 shows members of the workers' trust offering their wine for tasting.

A proposal has been initiated to extend the "Thandi" brand to other empowerment projects. This will benefit other projects because the Thandi brand has received wide recognition in the United Kingdom and commands significant shelf space and premiums. Thandi stands to benefit as it lacks the volume needed to satisfy its niche market. Opening the brand to other empowerment projects will satisfy the orders of large retailers, allow for placement at niche retailers, and offer consumers a larger selection of empowerment products. Thandi was originally registered as a trust but is now being restructured as a company.

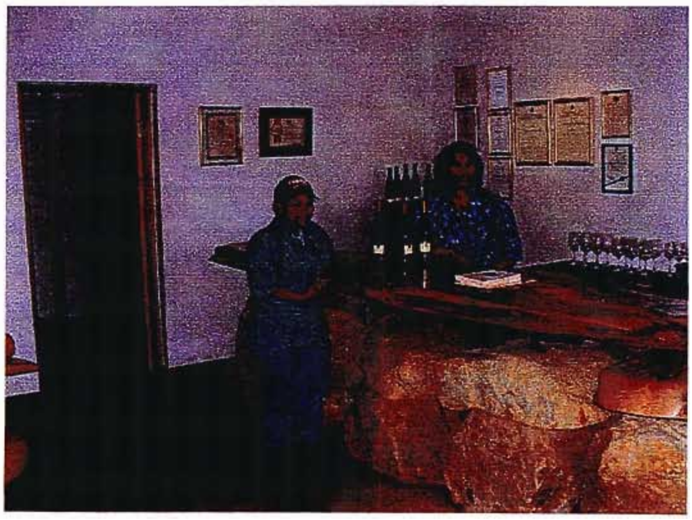

Figure 13: Members of the Thandi workers' trust, offering wine for tasting

1.3.1 Summary of key features characterising the farmworker equity-share schemes studied

Table 1 compares key features of the eight farmworker equity-share schemes included as case studies and shows that these land reform projects redistributed net farm assets amounting to almost seven million Rand when measured in constant 2001 prices. This largely reflects the aggregate value of settlement/land acquisition grants awarded to participating workers. At three of the projects, the size of these grants (R15,000 to R16,000 per beneficiary household) effectively limited the beneficiaries' joint shareholding to a very small portion (3.5-6.0 per cent) of total equity. Under the new LRAD sub-programme, each beneficiary will qualify for a minimum grant of R20,000 and – according to DLA officials in the Western Cape – beneficiaries will be able to leverage larger grants (up to a maximum of R100,000 each) depending upon their own contributions. Although SLAG beneficiaries are eligible for LRAD grants, priority will be given to first time applicants (Middleton, 2001). Levels of worker empowerment are therefore expected to improve on new FWES, and possibly on existing projects. Six of the eight FWES in the 2001 study had firm plans to transfer more shares to worker-shareholders over time.

Chapter 2 presents a discussion on the various tenure and institutional arrangements that may exist when land is purchased by a group of co-owners. Discussion focuses on the economic outcomes postulated for each mode of "ownership".

Table 1: Key characteristics of the farmworker equity-share schemes used as case studies

ocation, egistration ar	Turnover 2000/1 (Rands)	Main Enterprises	No. of worker-shareholders	% female worker-shareholders	Workers' equity[1] share (%) (a)	(b)	Workers equity – absolute value 2000/1 (Rands)	3rd party investor/ lender?	DLA grant funding?
oject 1 iarl 97	15,000,000	Olives Table grapes	34	59%	3.5% trust		551,924	Yes	Yes
oject 2 ketberg 00	1,500,000	Stone fruit Pome fruit Proteas	66	52%	6% company		902,220	Yes	Yes
oject 3 ketberg 00	850,000	Stone fruit pome fruit Citrus	70	54%		49% [2]	2,170,000	Yes	Yes
oject 4 gin 98	3,100,000	Wine grapes Pome fruit	48	56%	5% company		656,000	Yes	Yes
oject 5 gin 96	1,200,000	Wine grapes Stone fruit Pome fruit	12	33%	17% trust [5]		228,382	No	Yes
oject 6 cetberg 97	3,500,000	Table grapes Wine grapes Citrus	36	39%	20% trust		428,217	Yes	Yes
oject 7 tzville 01	2,500,000	Wine grapes Vegetables	27	33%	40% company		405,000	Yes	Pending
oject 8 ellenbosch 01	0[3]	Wine grapes	72	53%		50%[4]	1,440,000	No	Yes

) - Equity in a single farm-owning and operating entity
) - Equity in separate land-owning and operating entity
'orkers have a 49% share in both the land-holding company and the operating partnership
roject began in 2001, vines planted in same year. No turnover for 2000/1 as vines were not yet producing grapes
and is rented from the Stellenbosch Municipality. Shares are held in the operating partnership only
ust now to be registered as a company

CHAPTER 2

INSTITUTIONS TO MANAGE SHARED RESOURCES: A REVIEW OF LITERATURE

The purchase of land by a group of co-owners can yield various tenure and institutional arrangements, each of which has its own economic implications (Lyne and Graham, 2001). First, the group may divide the land into separate pieces with each individual exercising exclusive rights over his or her own piece of land. Second, the group may share the land with each member having inclusive use rights, often to grazing land. Third, the group may decide to become non-users and surrender their use rights in favour of benefit rights, such as a share in the profits, and hire a management team to operate the farm. It is also possible that a number of these strategies may be used together, or that rules governing use or benefit rights are missing or not enforced in which case the land becomes an open access resource. The chapter provides an overview of the different tenure and institutional arrangements that may arise when land is co-owned by a group of individuals, including the observed outcomes of land reform projects in South Africa. The discussion highlights the institutional arrangements that should – according to New Institutional Economics - be in place to encourage the success of an equity-share scheme.

2.1 Tenure arrangements on shared land

2.1.1 Open access

Open access to a resource means that users have unrestricted rights to use the resource. It may occur on any land (state, private or communal) where exclusive rights are not enforced. Gordon (1954) explained that when access to a resource is unrestricted, the equilibrium use rate occurs when rents are zero. This implies over-utilization of the resource in the economic sense. Individuals have no incentive to reduce their use of the resource as the benefits (positive rents) would accrue to other users (free-riders).

In the absence of exclusive property rights, individuals have little incentive to invest as others can free-ride. Open access also results in allocative inefficiency because land is unlikely to transfer from less efficient to more efficient users as the cost to a potential buyer or lessor of negotiating and transacting with an infinite number of users is prohibitive (Lyne and Nieuwoudt, 1990). The absence of a sale market further discourages investment because capital gains cannot be realised.

2.1.2 Common property

Common property may be defined as co-ownership of a resource by a well-defined group of individuals who establish and enforce rules to limit the rate at which the resource is exploited (Bromely and Cernea, 1989). Two basic types of common property institutions exist, user groups and non-user groups (Wynne, 1995: 12). Individual members of a user group make their own management decisions within the boundaries established by the group as a whole. For example, the group may agree to limit the number of cattle that each member can graze on commonage, but individuals manage their own herds. On the other hand, members of a non-user group surrender their use-rights to a management team in exchange for rights to share in the benefits flowing from the enterprise.

In the case of a user group, rents from common property are positive but allocative efficiency is not guaranteed as rights are unlikely to transfer to more efficient users outside the group owing to high transactions costs (Lyne, 1995). Likewise, investment is likely to be constrained because rules encouraging collective investment, e.g., the sharing of benefits in proportion to individual contributions, are difficult to negotiate and apply. This holds even when the user group is relatively small as some members may have less incentive or ability to contribute (Kille and Lyne, 1993). When rules restricting the use of the resource are not properly enforced with selective punishments or inducements the result may be a shift from common property to open access with its associated disadvantages. In the case of a non-user group, the economic outcomes could approximate those expected under private ownership (section 2.1.3) depending on how the non-user group operates (section 2.2).

2.1.3 Land owned privately by corporate entities

Under private property, where fully exclusive and transferable rights are assigned to <u>individual</u> owners, allocative efficiency is likely for two reasons. First, land markets tend to operate efficiently because transactions costs are relatively low (Kille and Lyne, 1993). Second, land transfers to the most effective users as the market imposes an opportunity cost (in the form of foregone sale or rental income) on the owner for under-utilization of the land (Nieuwoudt, 1990). If the owner is unable to use the land he or she has an incentive to sell or lease the land to someone who can use it, resulting in a more efficient allocation of land.

Individual owner-operators also have strong incentives to maintain and improve the resource because the benefits of these investments can be fully internalised through higher profits and capital gains can be realised at any time by selling the land. In addition, owners of marketable land are better able to finance investments as the land has collateral value to lenders (Nieuwoudt, 1990; Pasour, 1990: 187).

However, the economic outcomes are less predictable when land is privately owned by a corporate entity. In South Africa, most commercial farmland is owned by corporate entities registered as companies, trusts, close corporations, cooperatives, community land trusts (CLT's) and communal property associations (CPA's). The incentives that guide decisions taken by an organisation's members and managers are shaped by its constitution and rules of operation. Ideally, these institutions should sustain the profitable use of resources by encouraging investment, allocative efficiency and fairness in the distribution of benefits. Public and private companies are usually subject to stringent legal provisions that attempt to entrench good governance, i.e., institutions that promote these desirable outcomes. For other types of corporate entity the legal provisions are often less restrictive giving them more freedom to devise their own institutional rules. Variations in the legal provisions governing different types of corporate entities (companies, cooperatives, trusts, CPA's etc.) tend to result in broad differences between their property rights and hence in their financial performance. Traditional cooperatives, for example, tend to have a less successful record than companies (Porter and Scully, 1987). In South Africa, trusts are relatively free to devise their own institutional rules;

some operate like companies, others like traditional cooperatives.

2.2 A conceptual model of institutional arrangements for a successful equity-share scheme

A farmworker equity-share scheme (FWES) is a corporate farming entity that may, or may not, embrace the institutional arrangements needed to facilitate the profitable use of resources. The goals of a successful FWES have been variously stated as the redistribution of wealth and future benefit streams (LCRF, 2001:8; Eckert *et al*, 1996; Kirsten *et al.*, 1996); empowerment of farmworkers through skills transfer and their formal inclusion in policy making (Eckert *et al.*, 1996; McKenzie, 1993: 52; DLA, undated: 20); retaining or attracting quality management (McKenzie, 1993: 52; Lyne *et al.*, 1998: 6); sourcing capital from the private sector to finance new investment, i.e. preserving or enhancing creditworthiness (Lyne *et al.*, 1998: 8; Kirsten *et al.*, 1996; Pitout *et al.*, 1998: 66); the improvement of worker productivity and labour relations (Lyne *et al.*, 1998: 8; Van Rooyen and Ngqangweni, 1996: 4; Eckert *et al.*, 1996); and provision for the transfer of both ownership and <u>control</u> of commercial farms to previously disadvantaged workers in the long-term (McKenzie, 1993: 52).

Achieving these goals requires a mix of institutional arrangements that make for good corporate governance. To begin with, joint farming ventures require decisive and accountable management for financial performance (Nieuwoudt, 1990). Accountability requires incentives for complying with rules, and penalties for breaking rules (LRCF, 2001: 8). For decision-makers (directors, trustees and managers), accountability is facilitated by transparency (e.g. in reporting audited financial statements) but is ultimately ensured by the mobility of capital and a sound electoral process. When combined with performance-based remuneration packages, the threat of disinvestment (exit) and sanction (voice) by members encourages managers to maximize their benefits.

In addition, these institutions should eliminate or reduce the potential for free-riding to encourage co-owners to finance improvements and to use their shared resources in a sustainable manner. Recent NIE literature analysing the demise of traditional cooperatives in favour of "new generation" cooperatives (Cook and Iliopoulos, 1999 and 2000; Porter and Scully, 1987) and investor-owned firms (Hendrikse and Veerman, 2001) explains the relative inefficiency of traditional cooperatives in terms of inadequate property rights that result in free-rider, horizon, portfolio, control and influence problems. To solve the internal free-rider problem, property rights (i.e. benefit and voting rights) assigned to members should be well defined and proportional to their individual capital contribution.

The free-rider problem discourages member investment because some of the gains from the cooperative accrue to individuals that did not fully invest in developing the gains. These free riders could be non-members who patronize an open cooperative, or new(er) members who acquire the same rights as initial investors without paying the appreciated (i.e. market) price for their shares. Thus it is important that workers' interests in an equity-share scheme are not diluted by a transfer of shares to non-workers as a result of bequests or sales to outsiders. This would weaken worker incentives to increase their work effort (i.e. the employment contract would be less incentive compatible) and helps to explain why the workers in most FWES insist that only employees may be shareholders.

The horizon problem results from residual claims that do not extend as far as the economic life of the underlying asset (Porter and Scully, 1987). Under these conditions, cooperative members tend to under-invest in long-term and intangible assets (such as vineyards, orchards, product promotion and brand loyalty) because they are prevented from realizing capital gains by retiring shares at their market value. Again, new members become free riders as they benefit from past investments without paying fully for them in the form of higher share prices.

The portfolio problem (Jensen and Meckling, 1976) discourages members of a cooperative from investing as much as they would do as shareholders in an investor-owned firm (IOF). This problem arises because the cooperative's investment portfolio may not reflect the interests or risk attitudes of any given member. Members cannot trade shares at market prices and are therefore unable to diversify or concentrate their own asset portfolios to fully reflect personal risk preferences. This forced-rider problem is compounded by the cooperative principle of equal voting power as the portfolio preferred by those members who are willing to risk larger investments in the cooperative is likely to differ from that preferred by a risk-averse majority.

The control problem (Sykuta and Cook, 2001) refers to the cost that members face in monitoring managers to ensure that they make prudent investment decisions and do not shirk or cheat. Although this principal-agent problem is not unique to egalitarian institutions like traditional cooperatives, it is less severe in IOFs where (a) larger investors are able to internalise the dividends of their policing effort (because dividends are proportional to investment), (b) agent performance is clearly signalled by the market/audited value of members' equity shares, and (c) the agents are shareholders themselves and therefore have incentive-compliant employment contracts (Porter and Scully, 1987).

Hendrikse and Veerman (2001) cite cases of leading marketing cooperatives in Ireland and The Netherlands changing their governance structure in the direction of IOFs by issuing some form of equity with proportional benefit and voting rights, or by outright conversion to company status. Likewise, Cook and Iliopoulos (1999) describe the gradual decline of traditional marketing cooperatives in the USA, and the recent birth and proliferation of new generation cooperatives in response to inherent flaws in the structure of property rights within traditional cooperatives. Hendrikse and Veerman (2001) further contend that traditional cooperatives are at a disadvantage relative to IOFs when seeking capital from external sources to finance assets that have specific uses. Specific assets increase the financier's exposure to risk, and external financiers can do little to reduce this exposure when transacting with traditional cooperatives because managerial decisions can be influenced by many small investors who have equal or near equal voting rights. This "influence problem" tends to raise the cost of external equity and debt capital to finance assets that have specific uses. For this reason, a switch from cooperative to IOF status is predictable when product markets become more differentiated.

These institutional problems can be avoided if the FWES is organized as an investor-owned firm such as a company, or a trust or partnership that adopts and implements a company-like constitution. Figure 14 presents a conceptual model linking the institutional arrangements of a farmworker equity-share scheme to its performance. The left-hand side of the figure identifies strategic points of policy and programme interventions that impinge directly or indirectly on the enterprise. The macroeconomic environment, influenced by domestic policy and global trade, will have an important bearing on the profitability of the enterprise regardless of its institutional and organizational features. A conducive macro-policy environment will aid the performance of even a badly designed enterprise, while a poor environment (currently the deciduous fruit sector, for example) will constrain the performance of a well-designed project.

Even the best institutional arrangements risk falling short of implementation without investment in human capital that enables management and workers to take advantage of their new rights and asset ownership. This is particularly so in situations where land reform beneficiaries are operating with new legal structures, or as new entrants to

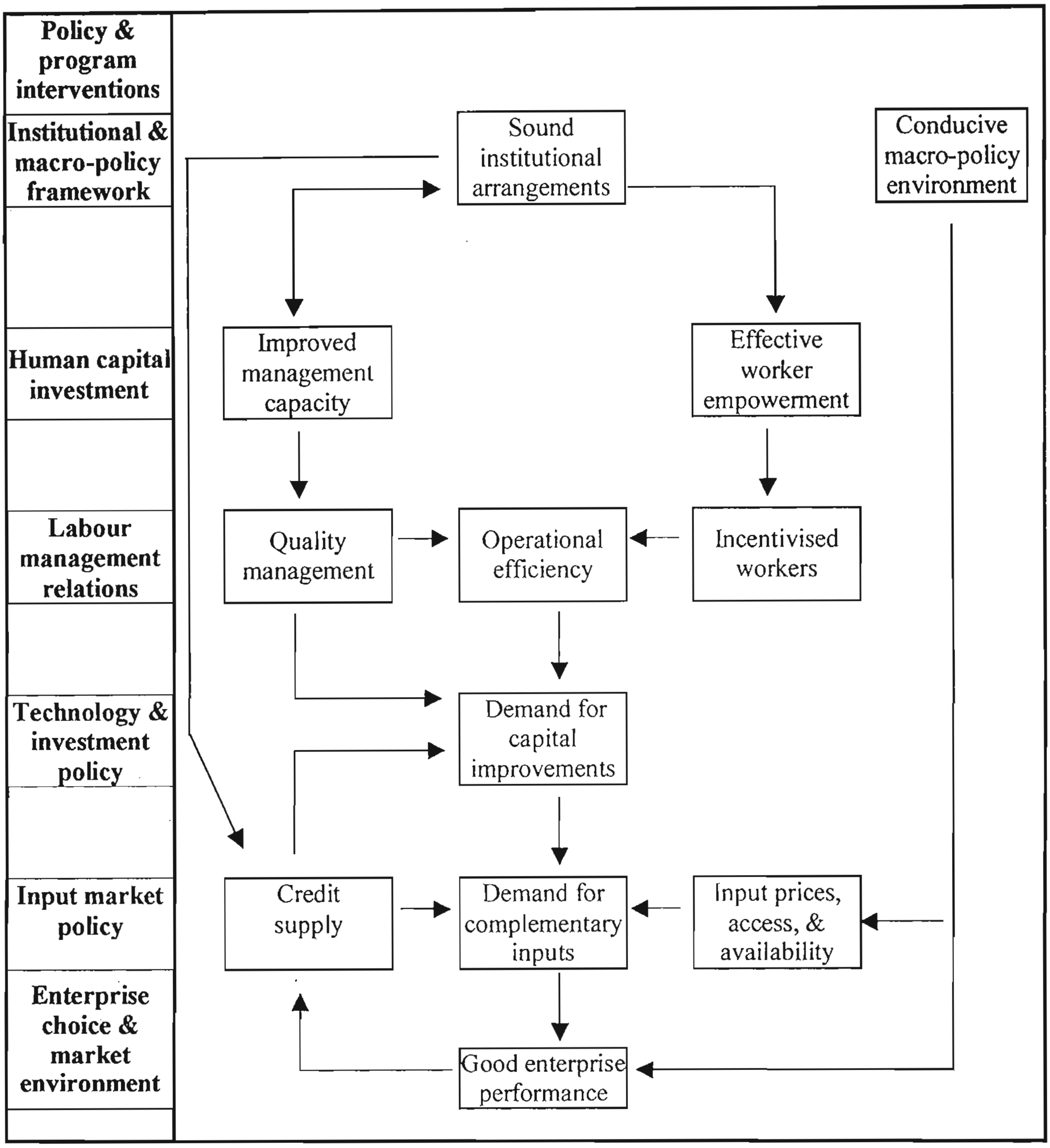

Figure 14: Conceptual model of factors contributing to the performance of a farmworker equity-share scheme

commercial operations, and require new skills to administer their institutions, develop business plans, interpret financial statements, participate in management decisions, and to access input, product and financial markets. A favourable institutional environment combined with an enabled management and workforce, *ceteris paribus*, should improve the operating efficiency of the enterprise, thereby increasing demand for, and the profitability of, fixed improvements and complementary inputs. In most commercial farming situations, performance also depends on access to loan finance from banks that evaluate applicants according to their institutional features, quality of management, net worth and debt-servicing capacity.

2.3 Observed outcomes of land reform projects in South Africa

2.3.1 Community land trusts and communal property associations

From 1994 to 1999 the government offered a R15,000 (and later a R16,000) grant to historically disadvantaged households who wished to acquire land on the market. Commercial farms available generally cost at least 20 times the value of the grant (Turner and Ibsen, 2000: 10). Groups of beneficiaries therefore pooled their grants and purchased land collectively. The group established a legal entity, usually a community land trust (CLT) or a communal property association (CPA), which became the owner of the property. It was intended that the land would be utilized as a common property resource with a well-defined group of beneficiaries who would enforce their own rules regulating individual access to the land (Pitout *et al.*, 1998: 10).

In KwaZulu-Natal, farms acquired by groups were usually separated into three parts: a residential village, arable land with plots allocated to individuals, and an area set aside for communal grazing (Lyne and Graham, 2001). Case studies conducted on some of the CLT's highlighted the presence of institutional problems that have undermined tenure security and investment on these projects (Hornby, 1996: 56; Pitout *et al.*, 1998: 29-53). Groups were too large (up to 500 households) to negotiate and enforce rules of access to farmland. Beneficiaries have taken a long time to move onto the land after taking ownership due to the costs involved in moving their homes. Existing infrastructure is often vandalized and destroyed while the farm lies unoccupied. Grazing land on most projects is utilized as an open access resource as management committees are reluctant to penalize individuals who ignore limits on herd size (Hornby, 1996: 56). Stocking rates are sometimes double the level advised by the Department of Agriculture.

Members do not have exclusive rights to their arable land through the winter months. This lack of fully exclusive land rights constrains the market for cropland. Individual members are often unable to lease their arable land out due to opposition from other members in the group who feel that a potential lessor will benefit unfairly from grazing his or her cattle on the maize stover produced by other households. Thus allocative efficiency is constrained (Pitout *et al.*, 1998: 49).

In effect, the farms purchased by SLAG beneficiaries are no longer marketable and therefore have no collateral value to lenders who perceive that they have little chance of repossessing the land and selling it on the open market if the borrower defaults. Beneficiaries therefore lack access to credit and thus their ability to invest is reduced.

Inadequate support of these beneficiary groups following transfer of the land has produced weak institutions on many grant-funded projects. Pitout *et al.* (1998: 29-53) reported findings from case studies of selected CLT's showing poor accountability of executive members, collapse of the electoral process and non-compliance with managerial decisions. In an effort to address these problems, government introduced the Communal Property Associations Act, 28 of 1996 (Pitout *et al.*, 1998: 10). The Act specifies a set of five principles - fairness, equality, democracy, accountability and transparency - that must be observed by beneficiaries when adopting a constitution. The principles of equality and democracy create potential for free-rider, portfolio, control and influence problems that undermine investment. Although the Act is a positive step towards overcoming institutional failure, it does not ensure institutional success because CPA's, like CLT's, do not satisfy the fundamental requirements of rent maximization, allocative efficiency and strong incentives to conserve and improve resources. It is perhaps for these reasons that government policy has shifted in favour of identifying creditworthy emerging farmers as beneficiaries of larger grants and settling them as owner-operators on farms of their own (Ministry of Agriculture and Land Affairs, 2000: 6). Table 2 compares the institutional characteristics of four types of corporate entity, highlighting the positive aspects of equity-share companies and the possible features of CPA's, CLT's and cooperatives that may hinder good governance.

Chapter 3 presents perceptions of FWES observed in the 2001 case studies. An earlier study conducted by the Surplus People's Project reported largely negative views of local

FWES, but there was little support for these findings in the 2001 case studies.

Table 2: Important institutional characteristics of equity-share companies, communal property associations, community land trusts and cooperatives

Characteristic	Equity-share Company	Cooperative	CLT	CPA
Net asset ownership	Shareholders	Shareholders	Members	Members
Members exercise use rights	No. Management has exclusive use rights	Possible	Yes	Likely
Decisive management	Likely	Likely	Possible	Possible
Transparency & accountability assured in law	Yes	Yes	No	No
Benefits and risk proportional to investment	Yes	No	No	No
Voting rights proportional to investment	Yes	No	No	No
Property rights transferable at market value	Yes	No	No	No
Allocative efficiency	Yes	Possible	Unlikely	Unlikely
Fragmentation of interests	Possible	Possible	Likely over time	Likely over time

CHAPTER 3

CHANGING PERCEPTIONS OF FARMWORKER EQUITY-SHARE SCHEMES

Originally recommended by McKenzie (1993), the first farmworker equity-share scheme was established in 1992 and its initial assessment was positive (Eckert *et al.*, 1996). However, a later study undertaken by the Surplus People's Project argues that the schemes are simply a convenient way for commercial farmers to leverage cheap capital, increase productivity and eliminate strike action (Fast, 1999: 1). This chapter extends these earlier studies, paying particular attention to their opposing views and the extent to which concerns raised by the Surplus People's Project may have been addressed in more recent equity-share schemes.

In 1998 the Surplus Peoples' Project (SPP) - whose mission is "*to promote the rights and interests of the economically and politically marginalised in South Africa*" - conducted a study of four farmworker equity-share schemes, namely Hoogland Chickens, Ebukhosini, Whitehall and Warmwater, situated in the Western Cape and Mpumalanga provinces. The study attempted to find out if there was a difference between the "advantages" of equity-share schemes as perceived by outsiders compared to how they were perceived by the farmworkers. The SPP report (Fast, 1999: 1-46)[2] was surprisingly negative given the positive outcomes expected from the improved incentives that farmworker equity-share

[2] *All references to the 1999 SPP report that follow are attributed to this author*

schemes offer to farmworker participants, although it should be noted that one of these projects was deliberately selected because it was experiencing financial problems.

Most of the concern voiced against farmworker equity-share schemes can be attributed to the Surplus People's Project. Their report (Fast, 1999: 1-46) focussed on nine major concerns; worker participation during the establishment of the scheme, beneficiaries' expectations, power relations between the worker-shareholders and the manager/original owner, the transfer of skills, labour relations, the position of non-beneficiaries on the farm (especially seasonal and casual workers), gender relations, tenure security and issues surrounding entry to and exit from a project. The case studies conducted in November 2001 (hereafter referred to as the *2001 study*) suggest that many of the concerns raised by the SPP have been addressed (although some do remain valid) and that many of their recommendations have been successfully implemented.

In July 1999 the Minister for Agricultural and Land Affairs, Thoko Didiza, imposed a moratorium on new settlement/land acquisition grant projects whilst the land grant programme was being redesigned. In February 2000 the moratorium was lifted when the Minister issued a policy statement on the new directions she had decided to follow (DLA, 2000: 3). In this policy statement she stated that "*all equity schemes will be reviewed*" (DLA, 2000: 5). It is possible that the SPP report may have been one of the reasons why farmworker equity-share schemes were initially excluded from the LRAD sub-programme.

The analysis of perceptions presented in this chapter is qualitative rather than quantitative, and relates only to the eight equity-share schemes studied. Questionnaires used in the case studies often required respondents to rate their perception of a particular issue using a Likert-type scale with scores ranging from one to five (1=excellent; 2=good; 3=average, with room for improvement; 4=poor; 5=extremely poor). Trustees were requested to respond as representatives of the worker-shareholder group rather than providing their personal views. Only one consensus answer was recorded regardless of the number of trustees interviewed (up to four) at each project. In the text, the terms "schemes" and "trustee respondents" are sometimes used interchangeably, i.e. 63 per cent of trustee respondents refers to five out of eight equity-share schemes.

3.1 Establishment of the scheme

SPP reported that farmworkers do not participate in decisions around the financial and legal arrangements of the farmworker equity-share schemes, do not join because they do not understand how the workers' trust is supposed to work, that land reform and housing options are not fully explained, and that there are problems with the assessment of farm value and the financial viability of schemes. The 2001 study[3] showed that in the majority of cases (seven of the eight schemes) the process of establishing an equity-share scheme involved in-depth workshopping with prospective beneficiaries to select an appropriate legal entity, to define the rules of their association and to discuss the scheme's structure.

[3] Unless otherwise stated, all references to data relate to the 2001 study. To preserve confidentiality the names of people interviewed and the names of the farmworker equity-share schemes studied are not disclosed.

At three of the eight schemes the potential beneficiaries, represented by a steering committee, had visited other schemes to speak to worker-shareholders or had invited them to workshops to share and learn from their experiences. At one scheme the workers had engaged the services of an accountant to help them understand the financial implications of the project and to advise them accordingly.

The SPP report stated that workers do not participate as shareholders because they do not understand how the workers' trust is supposed to operate. To examine this concern the 2001 study tested respondents' knowledge and understanding of three dimensions of their scheme and workers' trust, namely; profit sharing, election procedures, and property rights including the tradability of shares. Although interviews were conducted with trustees and not with ordinary worker-shareholders, all of the respondents showed a clear understanding of how their scheme and the workers' trust operated, and were able to answer virtually all of the questions posed to them on issues relating to these dimensions. Moreover, the respondents were - without exception - enthusiastic about participating in the farmworker equity-share scheme. At seven of the eight schemes all of the permanent farmworkers had voluntarily become shareholders. At the remaining farm, six recently employed workers were not part of the scheme but had applied for LRAD grants to enable them to join once the grants were approved. Some of the trustees interviewed stated that workers on neighbouring farms were often jealous of them being part of such a project and expressed the hope that they too may have a similar opportunity in the future. The SPP reported problems with the assessment of farm net asset value and the financial viability of some schemes. Six of the eight schemes in the 2001 study were co-financed by a private lender or by NewFarmers Development Company (an equity investor) and all eight projects had received DLA grant funding (Table 1). The presence of private finance indicates that a thorough financial analysis found the project to be creditworthy as private lenders and investors bear risk. In addition, to obtain DLA grant funding, the business plan for the prospective equity-share project must also include a financial analysis of the farm. This covers the farm's financial records for the past five years, an analysis of the farm's strengths and weaknesses, and projections of farm income and costs over the next five years. The aim of the DLA appraisal is generally two-fold: to establish whether the purchase of equity in the farm presents a sound investment for the workers, and secondly to aid the DLA in their task of allocating scarce fiscal resources to beneficiaries that are able to deploy these resources profitably in the long term. Even so, farmworker equity-share schemes co-financed by the private sector and the DLA are more likely to succeed financially than are projects that attract only DLA funding because private lenders and investors have a financial interest in the project's success. To address concerns about the assessment of net asset value and the financial viability it seems prudent to suggest that DLA grant funding should not be awarded to a farmworker equity-share scheme unless it is co-financed by a private investor, commercial bank or other reputable institution.

3.2 Beneficiary expectations

In the SPP's 1998 study, beneficiaries stated that there had been little change in working conditions, wages, tenure security or job security, and that they were disappointed in the lack of tangible benefits. The 2001 study questioned beneficiaries on similar issues. Most of the trustee respondents (88 per cent) felt that they could improve working conditions if they chose to (and perceived this as one of the farmworker equity-share schemes benefits) and had been successful in both cases where they had tried to do this. They were also confident that they could influence wage levels, but most accepted that this would not be wise until the project was making enough money to justify higher wages. Knowledge of the farm's financial status made workers aware that demands for wage increases could jeopardise their own investment in the long-term.

Trustees were asked what benefits, expected or unexpected, the equity-share scheme had provided. The most common benefits cited were improved housing and free transport (for example, to town once a week or to a clinic). Other benefits cited included free or subsidized crèches, schooling and clinics. It seems that project managers are aware of the workers' need for tangible benefits, especially when dividends have yet to be declared. Although one scheme was in a position to declare dividends in 2001, the workers chose to invest these earnings in a new packshed. Considering their low incomes, this willingness to forgo current earnings suggests that the workers understand the project and have confidence in management. With the exception of one scheme, beneficiaries were pleased with the progress of the project and satisfied with the benefits it had provided. In a follow-up interview with the SPP, Mason (2001) continued to express the view that farmworker equity-share schemes favour the original owner excessively and do not provide meaningful benefits for worker-shareholders. However, the 2001 study suggests that this may not be the case.

3.3 Power relations

Power relations between management and worker-shareholders had not changed on the projects examined by the SPP in 1998. In particular, workers' shareholding was not representative of their say in decision-making. Workers claimed that they were unable to influence financial or operational decisions and stated that there was a distinct lack of communication between management and worker-shareholders, especially with regard to financial reporting. In the 2001 study, trustees interviewed at seven projects felt that their say in the business was proportional to their shareholding, while those from the remaining project felt that their say was more than proportional! At all but one scheme these respondents believed that they could influence financial and operational decisions to some extent. Three-quarters of the trustee respondents rated their part in the scheme's decision-making process as excellent or good, and a quarter rated it as average. The latter group suggested that with further training they could play a greater role in this process.

All of the worker-shareholders had received training in the interpretation of financial statements at five of the eight schemes. At the three remaining projects the chairperson of the workers' trust had received extensive training, enabling him/her to pass on financial information to the other shareholders. At these projects only the chairperson had received training due to high levels of illiteracy on the farm. Lack of communication between management and worker-shareholders was not cited as a problem by any of the respondents in the 2001 study. Worker-shareholders and management met, on average, every two-three months.

3.4 Skills transfer

The transfer of skills should be a priority for all farmworker equity-share schemes. The SPP report highlighted the need for literacy training and basic training in financial matters for worker-shareholders to participate meaningfully in a project. This training needs to be completed before embarking on more complex institutional and financial training. On a positive note, the 2001 study found that all FWES beneficiaries had received training in a range of issues, including all or some of the following; identification of shareholders, shareholder rights and obligations, election and voting procedures, distribution of benefits, interpretation of financial statements, general business skills and life skills. At one scheme, where 40 per cent of beneficiaries were illiterate, voluntary adult literacy courses had been underway for some time, with all costs being covered by the company. Illiterate beneficiaries had expressed great interest in learning to read and write, and almost all of them were attending the course. The SPP still maintains that the work experience of the average worker on a farmworker equity-share scheme does not change, that workers do not receive meaningful skills transfer, and that they do not benefit from capacity building (Mason, 2001). Again the 2001 study suggests otherwise.

3.5 Labour relations

As reported by Eckert *et al.* (1996: 20), one would expect the relationship between management and labour to improve with the implementation of a farmworker equity-share scheme due to factors such as changes in attitudes, feelings of empowerment and stronger incentives for financial performance. However, the SPP reported that workers felt that they were treated like children and had no say in the business. In the 2001 study, trustees at six of the eight schemes stated that worker/management relations were excellent. The others claimed that they were good or average. All of the trustee respondents rated worker-shareholders' overall satisfaction with the scheme as either excellent or good. Three-quarters rated worker-shareholder participation in decision-making as either excellent or good, and a quarter rated it as average. These favourable labour relations are consistent with *a priori* expectations and reflect changing attitudes on farms, especially on the part of the previous white owners who seem more willing to view themselves as partners in a business rather than employers and farm managers.

3.6 The position of non-beneficiaries

The SPP argued that non-participants who are permanent workers on the farm should not be excluded from the benefits of the farmworker equity-share scheme. However, spreading benefits across workers who do not wish to participate would entrench free-riding and weaken incentives to invest in the project. In the 2001 study, all permanent workers were either beneficiaries or were in the process of becoming beneficiaries. At all eight schemes farm managers said that new workers on the farm would be actively encouraged and given assistance to become shareholders if they wished to do so. On one scheme management felt that the seasonal workers on the farm, many of whom return every year, should be involved in the scheme in some way.

3.7 Gender relations

The SPP report indicated that women did not participate as equals in the equity-share schemes studied. Women were excluded from many of the farm's more strenuous (and thus higher-paying) activities due to the work being too physically challenging; they were paid lower wages as they held less skilled positions; where DLA grants had been issued, the man of the household felt that he "held" the share; and, in general, women did not participate in committee meetings. In summary, the SPP study concluded that women did not have equal status to men, and had not been empowered by the farmworker equity-share scheme. The results of this study are far more positive. On 63 per cent of the FWES more than 50 per cent of the worker-shareholders are women and these women are shareholders in their own names. Furthermore, in seven out of eight cases, the trust-deed makes special provision for female trustees.

The discrepancy between wage levels of male and female shareholders on farmworker equity-share schemes is still, however, evident. Wages paid to men and women were equal at only two of the case studies. Men earned higher salaries on the other six. Farm managers attributed this to the fact that female workers generally have fewer skills. The Employment Equity Bill states *"every employer must take steps to promote equal opportunity in the workplace by eliminating unfair discrimination in any employment policy or practice"*. This clause is intended to provide male and female employees with equal opportunities to improve their skills via training in the workplace. With greater skills, differences in salaries between women and men on farmworker equity-share schemes should diminish.

3.8 Tenure security

Tenure security did not seem to be a controversial issue amongst shareholders in the SPP study. Likewise, in the 2001 study, 50 per cent of trustee respondents did not rate tenure security as either the first or second most important benefit of the equity-share project. It is the view of the SPP (Mason, 2001) that all farmworker equity-share schemes should provide separate housing for worker-shareholders to protect them against losing both their jobs and homes if the scheme fails. The SPP feels that separate housing is a necessary requirement to protect beneficiaries of DLA land grants. However, providing housing that is not tied to employment could result in a proliferation of unemployed people residing on or near the project. Many district councils in the Western Cape are opposed to the possibility of villages being created on farms as they find the servicing of these small rural settlements problematic. In some instances, e.g. the high profile Fair Valley case, the district council has refused permission to sub-divide farmland for residential use despite legal action instituted by the land reform beneficiaries. Furthermore, in the Western Cape, many farms are held by family trusts that specifically prohibit the subdivision of land.

On four of the eight farmworker equity-share schemes studied in 2001, workers lived in nearby towns or farms. At the remaining four schemes, workers' tenure security is only as secure as their job. If workers leave voluntarily or involuntarily their residential rights are governed by the Labour Relations Act, Act 66 of 115, by the Basic Conditions of Employment Act, Act 75 of 1997 (BCEA) and by the Extension of Security of Tenure Act, Act 62 of 1997 (ESTA). At one scheme, the workers' trust has negotiated a deal that will give each beneficiary a 99-year lease on their house, whether or not they are employed by, or retain shares in, the equity-share scheme (houses are currently under construction on the farm).

3.9 Issues of entry and exit

The SPP did not criticise entry and exit issues within farmworker equity-share schemes. However, the 2001 study highlighted some issues in this area that could become problems in the future. For example, shares can be bequeathed to outsiders at three of the case studies. In future years this may pose a problem. One of the fundamentals underpinning a farmworker equity-share scheme is that workers have an incentive to invest time and effort in the farm as they share in its profits and capital gains. This incentive will be diluted when shares transfer to non-employees. For this reason worker-shareholders at the other five schemes may not bequeath shares to outsiders. Shares are sold back to the workers' trust at their audited market value when a worker exits the scheme, with the proceeds accruing to the worker or his/her estate. Entry conditions were detailed in the workers' trust-deed at most of the farmworker equity-share schemes studied in 2001. For example, at one project, new recruits face a probation period and then must apply to - and be accepted by - the workers' trust to become a shareholder. If the worker's application is approved, he or she may then apply for an LRAD grant. It generally takes a period of up to three years for a new worker to become a shareholder. Provisions for voluntary and involuntary exit are well defined in shareholders' agreements for all eight of the case studies. Worker-shareholders were free to exit at any time at all of the schemes studied. However, seven of the projects imposed a five-year moratorium on the sale of shares, and the remaining project a three-year moratorium. While shareholders may leave the scheme at any time they cannot sell their shares until the moratorium is over. A temporary restriction on share transactions involves a trade-off. In theory, it dampens shareholder incentives to invest. In practice, it improves creditworthiness by “locking in” the managerial experience of the previous owner during the critical early stages of a scheme’s life.

3.10 Other concerns

Fast’s 1999 report for the SPP contended that farmworker equity-share schemes are management intensive operations and poor management decisions may therefore jeopardise the whole project. Whilst this is true of any project, the thorough analysis of creditworthiness performed by private lenders and investors - combined with the DLA screening process - reduces the likelihood of poor management. The SPP (Mason, 2001) feels that farmworker equity-share schemes are only an "investment option” and are not a way of empowering previously disadvantaged individuals or of redistributing land. However, equity-sharing redistributes wealth as opposed to just land, and has the advantage of retaining or attracting the quality management needed to attract capital and to make full use of scarce resources. Table 1 (see page 31) shows the redistribution of wealth that occurred within the eight equity-share schemes studied in 2001. In total R6,781,743 transferred to the farmworker-shareholders in these schemes.

Unlike many other land reform projects, farmworker equity-share schemes offer beneficiaries and taxpayers a potentially favourable return on their investment and an opportunity for beneficiaries to realise the value of that investment. Indeed equity-share schemes have the potential to be a great improvement on many other land reform projects in South Africa, particularly the group settlement projects that emerged under the settlement/land acquisition grant programme. These projects involved large groups of beneficiaries pooling their settlement/land acquisition grants to purchase whole commercial farms. The group established a legal entity, usually a community land trust or a communal property association that became the "private" owner of the property. Inadequate support of these beneficiary groups resulted in weak institutions.

Pitout *et al.* (1998: 29-53) conducted case studies of selected CLT's showing poor accountability of executive members, collapse of the electoral process, and non-compliance with managerial decisions. Furthermore, these projects have not empowered women or met gender goals. In a study of settlement/land acquisition grant funded projects, Walker (2002) noted that although trust committees often included some women, there was no explicit mechanism in the trust-deed to ensure that women continue to be elected as trustees in the future. According to the National Land Committee (NLC), only 14 per cent of beneficiaries listed under the settlement/land acquisition grant programme (up until August 2000) were female (Turner and Ibsen, 2000: 12). This contrasts with the 2001 farmworker equity-share scheme case studies where the majority of shareholders were women at most schemes. Lyne and Graham (2001) present empirical evidence in support of their argument that settlement/land acquisition grant projects converted commercial farms into open access resources. As a result, the land has no market or collateral value, nor are there incentives for allocative efficiency, rent maximization, or the conservation and improvement of resources (Pitout *et al.*, 1998: 49).

A further concern raised by the SPP are the delays involved in the DLA process, i.e. the time taken for the grant to be approved and paid out; insufficient follow-up once grants have been disbursed and inadequate assessment of proposed projects. When questioned about this, the DLA (Middleton, 2001) said that it would not be possible to conduct a more rigorous scrutiny of proposals and accelerate the grant allocation process as these represent two conflicting objectives. The process of allocating grants is a slow one as the DLA is applying more vigorous screening procedures to prevent situations where grants are used to prop-up highly indebted farms. However, if as suggested previously, DLA grants are only made available to those projects co-financed by private lenders or investors, the need for the DLA to conduct its own financial analyses could be eliminated. Instead, the DLA could focus its attention on the outreach and empowerment aspects of proposed land reform projects.

The findings of the 2001 study suggest that the evaluation of proposed farmworker equity-share schemes should include an analysis of labour relations on the farm by questioning long-serving workers. During the interviews it became apparent that an atmosphere of trust between workers and management is a prerequisite for any successful equity-share scheme.

The two studies compared in this chapter differ in their findings, with those from the SPP's study being largely negative and those from the 2001 study being largely positive. A number of factors might account for these differing results. All of the case studies conducted in 2001 were located in the Western Cape, whereas the SPP split their cases equally between the Western Cape and Mpumalanga provinces. Beneficiaries in the Western Cape are predominantly "coloured" people, while those from Mpumalanga are largely black. Most coloured farmworkers use the same home language as their employers (Afrikaans) and some understand English. For black farmworkers, communication with white farmers, government officials, lenders, planners and legal advisers is far more difficult. Communication problems are not conducive to an environment of mutual trust and raise the (transaction) costs of negotiating and implementing the institutional changes required for a successful farmworker equity-share scheme. The 2001 study was also more comprehensive in that eight farmworker equity-share schemes were studied. These case studies were not selected according to their financial health or apparent success. In comparison, only four farmworker equity-share schemes were studied by the SPP and one of these four projects was purposefully selected because it had run into financial problems.

Moreover, the SPP study was conducted three years prior to the 2001 study. During this time many new farmworker equity-share schemes emerged, enabling prospective shareholders to learn from the mistakes of existing projects and establishing equity sharing as a viable mode of land reform. The 2001 study suggests that many of the SPP's concerns had been addressed in more recent projects. These relate to beneficiaries' participation and expectations, power relations between management and worker-shareholders, skills transfer and labour relations. However, some areas of concern still remain, namely, beneficiaries' tenure security, different skill and wage levels between men and women, literacy amongst all worker-shareholders, and exit procedures.

The following chapter examines inter-relationships between institutional arrangements, quality of management, worker empowerment and the performance of the nine farmworker joint ventures used as case studies. The discussion shows how variables contained within each of these four empirical constructs combine together to affect enterprise performance.

CHAPTER 4

INSTITUTIONAL CHARACTERISTICS AND PERFORMANCE OF FARMWORKER EQUITY-SHARE SCHEMES IN SOUTH AFRICA: IDENTIFYING BEST INSTITUTIONAL PRACTICES

This chapter aims to identify the institutional characteristics of successful FWES using the principles of New Institutional Economics theory outlined in section 2.2 and data gathered from all nine of the case studies (including the Fair Valley project which is not an equity-sharing scheme) described in chapter 1, and then to propose a set of "best institutional practices" that is likely to promote the success of future farmworker equity-share schemes. Data relating to institutional arrangements and management quality, worker empowerment and financial performance collected during the study are analysed using cluster analysis. This technique was performed on variables to test for positive relationships hypothesized in section 2.2 between indicators of enterprise performance and sound institutional arrangements. For example, it was hypothesized that a scheme's creditworthiness is positively related to a shareholder agreement that protects against a sudden loss of managerial expertise.

This chapter presents an empirical analysis of all nine case studies including the joint venture that did not involve equity-sharing. For this reason, and for the sake of anonymity, the case studies are referred to as "projects".

4.1 Variables recorded in the case studies

Table 3 defines the set of observable variables chosen to represent the enterprise-level constructs presented in Figure 14 (section 2.2). Some of the variables were continuous but most were binary, scoring one or zero to indicate the presence or absence of an attribute. To accommodate the cluster analysis presented in Section 5, all of the variables were standardized as dummies scoring one for the presence (absence) of a desirable (undesirable) attribute, and zero otherwise so that the expected relationships between institutional arrangements and performance indicators are positive. Decisions regarding the desirability of these attributes were informed by the NIE literature, specifically that relating to the emergence of new generation cooperatives.

4.2 Empirical model

The theoretical model postulated in Figure 14 was collapsed into a more tractable empirical model (Figure 15) because its constructs were not all uniquely observable. The empirical model in Figure 15 argues that the institutional arrangements within a FWES have both a direct and an indirect effect on enterprise performance through worker empowerment and retention of competent management. In turn, the institutional arrangements are influenced by the quality of management. For example, in the first case study (project 1) the operating entity is registered as a trust and is therefore not obliged to make provision for an annual external audit of the enterprise. Nevertheless, management

Table 3: Indicator variables observed in the case studies

Variable *	Definition of variables	Empirical construct
dividend	Has the enterprise been in a position to declare dividends?	Performance indicators
capgains	Have there been any realised or unrealised capital gains in the value of shares or assets since the enterprise was initiated?	
wages	Is the lowest wage earned by a skilled worker-shareholder above the average for the case studies?	
pvtfin	Has a private sector lender or investor provided finance for the enterprise?	
collateral	Has a commercial bank accepted the enterprise's assets as collateral for a long term loan?	
profits	Have worker-shareholders received dividend income or realised capital gains in share or asset values?	
conditions	Have worker-shareholders gained the benefits of being able to influence wages or working conditions and/or do they feel that their tenure or employment security has increased?	
housing	Have worker-shareholders benefited by receiving improved housing or more secure residential rights?	
enterprise	Have the worker-shareholders established their own business enterprise/s on the farm?	
empower	Do the worker-shareholders feel that the project has empowered them? Were they positive about the project and its impact on their lives?	
groupsize	Is the size of the worker-shareholder group below the median across the projects?	Institutional arrangements
company	Is the enterprise operated as a company?	
decpower	Do worker-shareholders feel that the power they exercise in policy decisions is at least equal to their share of equity in the business?	
noheirs	Shares cannot be bequeathed to multiple heirs.	
noout	Shares cannot be bequeathed to outsiders.	
Exit	Shareholders must sell their shares if they exit the project.	
propvote	Do shareholders receive proportionally more votes as their shareholding increases?	
propprof	Do shareholders receive proportionally more profit as their shareholding increases?	
nolimit	There is no limit on the number of shares held by a worker-shareholder.	
moratorium	Shareholders cannot sell any shares, even on exiting project, until the temporary moratorium on sales expires.	
equity	Is the worker-shareholders' equity share above the average for all case studies?	Worker empowerment
skillsl	Have the worker-shareholders received training in basic life skills such as family planning, budgeting, dealing with alcoholism and domestic violence?	
skillsg	Has a general transfer of technical skills taken place and was this training perceived to be at least adequate?	
skillsf	Have worker-shareholders, or at least their trustees, received training enabling them to read and interpret financial statements relating to the project?	
skillsm	Have worker-shareholders, or at least their trustees, received training enabling them to serve as office bearers in their trust and the operating company?	
partest	Did worker-shareholders participate in the establishment of the project through attending workshops, discussion groups, visiting existing FWES etc?	
partdm	Do worker-shareholders participate in decisions relating to the project's operation (e.g. decisions regarding the expansion or diversification of the enterprise)?	
femtrust	Were special provisions made to ensure that at least 50% of the worker trustees are female?	
mgtqual	Was the quality of management rated as good or excellent by worker-shareholders in terms of its technical ability to make wise investment decisions?	Management quality
labrel	Do workers rate management and labour relations as good or excellent?	
busplan	Does the enterprise have a long-term business plan that management is implementing?	
resolve	Are formal dispute resolution procedures in place?	
extaudit	Are financial statements subject to annual external auditing?	
future	Are there provisions to extend the percentage of shares owned by worker-shareholders in a predictable way to make them larger owners in the future?	
incentives	Is there a salary incentive scheme of worker-shareholders?	

Notes: * For all variables, Yes = 1, No = 0. Missing values are coded as –1.
Some variables (Table 3) could belong to more than one group. For example, a formal procedure to resolve disputes could be considered an institutional arrangement as well as an indicator of management quality.

opted for external audits thereby revealing its willingness to promote good corporate governance.

Good managers are also expected to be more proactive in transferring skills to empower worker-shareholders. For example, the manager of project 7 encouraged two semi-skilled employees to purchase tractors with loans secured by the operating company. These worker-shareholders now manage their own businesses, hiring out tractor services to the FWES and to other clients. At projects 3 and 4, management had introduced training courses in general life skills such as family planning, budgeting, dealing with alcoholism and overcoming domestic violence. This training, which goes beyond the usual offerings in technical, financial and leadership subjects associated with good governance, was given much of the credit for an unusually strong work ethic amongst worker-shareholders at these two projects.

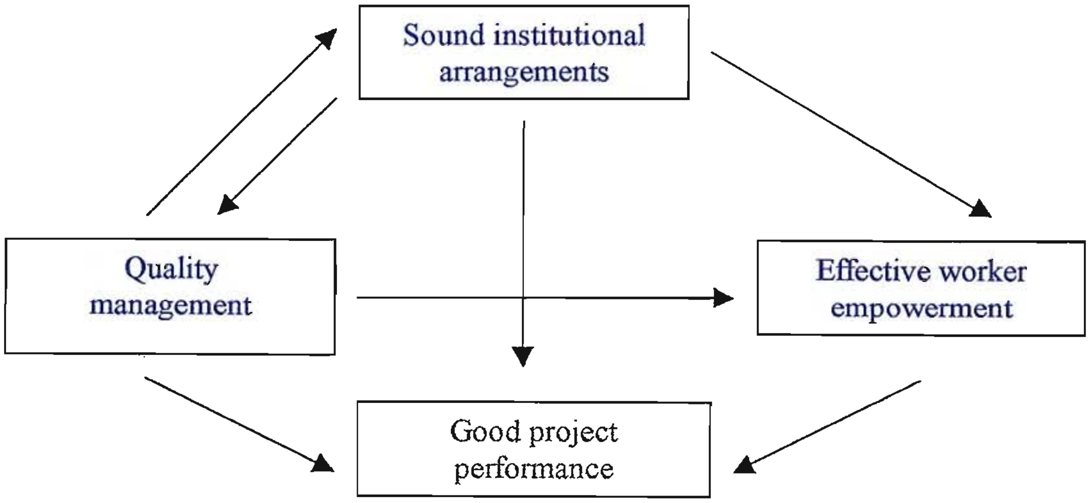

Figure 15: Empirical constructs of a farmworker equity-share scheme

Ten of the variables presented in Table 3 were selected as indicators of project performance measured in terms of both the financial health of the enterprise and the benefits passed onto its workers. These variables are *dividend, capgains, wages, pvtfin, collateral, enterprise, profits, conditions, housing* and *empower*. Unfortunately, almost all of the projects studied were either too new to have reported a full set of financial records or their managers were unwilling to disclose this information. For this reason, the measurement of enterprise financial health was limited to the variables *dividend, capgains, wages, pvtfin* and *collateral* and had to exclude other conventional measurements of earnings or financial health, e.g. net profits or rate of return on assets or equity. The variables *pvtfin* and *collateral* reflect the creditworthiness of the enterprise in the eyes of private sector lenders and investors, while *wages* indicates its liquidity status, i.e. its ability to pay wages higher than the average paid to skilled workers across all nine case studies. Likewise, the variables *dividend* and *capgains* reveal the ability of the business to reward shareholders. From the workers' perspective, performance is measured by the remaining five variables (*enterprise, profits, conditions, housing* and *empower)*; the three variables *profits, conditions* and *housing* measure three different types of benefits that the enterprise has provided to worker-shareholders, while *empower* and *enterprise* represent benefits in terms of their perceived ability to improve quality of life and actual attempts to do so by initiating their own enterprises on the farm.

4.3 Cluster analysis of variables

In this study, hypothesized relationships between the observable variables are analysed using hierarchical cluster analysis, primarily because the sample size is small. The basic aim of cluster analysis is to find the "natural groupings", if any, of a set of individuals (cases or variables). In short, it aims "*to allocate a set of individuals to a set of mutually exclusive, exhaustive, groups such that the individuals within a group are similar to one another while individuals in a different group are dissimilar*" (Chatfield and Collins, 1980: 212). Cluster analysis measures the similarity (or dissimilarity) of every pair of individuals. The basic data for cluster analysis describe a set of N individuals on which p measurements (variables or cases) have been recorded. The initial choice of a particular set of measurements used to describe each individual constitutes a frame of reference within which to establish the clusters, and the choice reflects the investigators' judgment of their relevance for the purpose of classification (Everitt, 1980). In this study a set of $N = 35$ variables (Table 3) was selected for analysis across $p = 9$ (relevant) case studies. The specific aim of the analysis was to test for positive relationships between variables representing the four empirical constructs by observing their natural groupings estimated by minimizing the squared Euclidian distance within groups (clusters).

The conceptual model in Figure 14 and empirical model in Figure 15 imply that natural groupings should contain a healthy mix of variables drawn from each of the four empirical constructs because positive relationships are expected between sound institutional arrangements, competent management, effective worker empowerment and good enterprise performance. In other words, **the natural groupings should <u>not</u> coincide with the empirical constructs, as this would indicate the absence of strong positive relationships between the empirical constructs.**

4.4 Results

Cluster analysis revealed four distinct natural groupings or clusters. The mean Euclidean distance within clusters increases markedly from 1.0 to 1.3 when the number of clusters diminishes from four to three, indicating a sudden loss of homogeneity within the groups of variables when fewer than four clusters are retained. Table 4 shows the variables contained within each of the four clusters and specifically the inter-relationship between the empowerment, management and institutional variables on the one hand and the performance indicators on the other. Importantly, the institutional variables appear in every cluster reflecting the central role that good governance plays in promoting the performance of a farmworker equity-share scheme. Positive correlations are strong for variables within the same cluster and weaker for variables from different clusters.

Projects were then ranked (see Table 5) according to eight indicators of project performance in Table 3 plus three additional indicators of human capital development (*skillsg*, *skillsl* and *skillsf* in clusters 1, 2 and 3 respectively) that were considered important by worker-shareholders interviewed during the case studies. Some of the projects did not report information for the performance indicators *capgains* and *wages*. These two variables were therefore excluded from the ranking process to ensure that projects were ranked only on (equally-weighted) indicators free of missing values. This ranking process clearly distinguishes project 1 as the best performer and project 9 as the worst performer.

The cluster analysis shows that variables measuring the four empirical constructs (performance, empowerment, management and institutional arrangements) of a FWES are not independent of one another and combine readily with other indicators in each of the natural groupings. Since variables within each of these natural groupings are

Table 4: Inter-relationships between empowerment, management, institutional and performance indicators

Performance indicators	skillsg	skillsm	equity	femtrust	company	decpower	mgtqual	skillsl	partdm	skillsf	partest	labrel	extaudit	busplan	resolve	incentives	propvote	propprof	nolimit	noheirs	moratorium	noout	exit	grpsize	future
Cluster			1				2								3								4		
dividend																									
enterprise																									
empower																									
profits																									
housing																									
capgains																									
conditions																									
wages																									
collateral																									
Pvtfin																									

Key

Variables measuring worker empowerment
Variables measuring institutional arrangements
Variables measuring management quality

positively correlated, key institutional variables can be selected from within each of these clusters and related to specific elements of the four constructs in a bid to identify a set of "best institutional practices". Key variables were taken as those important in economic theory and free of missing values. The following discussion also uses anecdotal evidence and comparisons between projects (especially the extreme projects in Table 5) to highlight best practices.

Table 5: Ranking of case studies according to performance and empowerment indicators

	Enterprise performance								Social Objectives				
Indicators	dividend	enterprise	empower	profits	housing	conditions	collateral	pvtfin	skillsg	skillsl	skillsf	Attributes present	**Ranking**
Project 1	1	1	1	1	1	1	1	1	0	1	1	10	**1**
Project 2	0	0	1	0	1	1	0	1	1	1	1	7	**2**
Project 3	0	0	1	1	1	1	0	0	0	1	1	6	**3**
Project 4	0	0	1	0	1	1	0	1	1	1	0	6	**3**
Project 5	0	0	1	1	1	1	0	0	0	0	1	5	**5**
Project 6	0	0	0	0	1	1	1	1	0	0	1	5	**5**
Project 7	0	0	0	1	1	0	1	1	0	1	0	5	**5**
Project 8	0	0	1	0	1	1	0	0	1	0	1	5	**5**
Project 9	0	0	0	0	1	0	0	0	0	0	0	1	**9**

Note: A complete database is presented in Appendix 2.

4.4.1 Cluster 1

This small cluster indicates positive relationships between the institutional variable *company* and four empowerment variables: *skillsg, skillsm, equity* and *femtrust*. No performance indicators or management variables appear in this cluster – possibly because the case studies were still too new for their training to have had an effect on performance. Project 2, for example, was registered only 18 months before the case study was conducted.

Cluster 1 suggests that projects operated as companies invest more in skills training and are more gender sensitive than those operated as a partnership, trust or CPA. Projects that invest less in skills training tend to be those where workers own a relatively small share of the equity (e.g. projects 5 and 6). Despite these differences, virtually all of the project managers emphasised the importance of skills training, and expressed a need for this training to be continuous and preceded by basic literacy training. Projects 1 and 8 both reported illiteracy rates in excess of 40 per cent amongst workers before they became shareholders, but project 1 was the only case study that provided basic literacy training.

The advantage of operating a FWES as a company is that the Companies Act, 61 of 1973, provides the legal framework for transparency, accountability and well-defined, proportional and tradable property rights. These same institutional characteristics could also be written into the constitutions of other legal entities chosen to formalize the business. Projects 6 and 9 are registered as a trust and a CPA respectively but neither embraces the property rights or governance attributes of a company, or the skills transfers and proactive gender relations found in cluster 1.

4.4.2 Cluster 2

Cluster 2 identifies positive relationships between the four performance indicators *dividend, enterprise, empower* and *profits*; one institutional variable *decpower*; one management variable *mgtqual*; and two empowerment variables *skillsl* and *partdm*. The latter variable highlights the importance of sharing control, and not just ownership, of the enterprise with workers. Project 1, the top ranked performer, recorded positive scores on all of the variables contained in cluster 2. The manager of this project had taken proactive steps to help worker-shareholders exercise their decision-making rights, so strengthening their incentive compatible employment contracts. These steps included training in life skills (*skillsl*), encouraging worker representatives to participate in business decisions (*partdm*) and promoting workers' efforts to establish enterprises of their own (*enterprise*). In addition, the manager decided that a different worker-shareholder should supervise the farm for one day each week in order to improve their awareness and knowledge of business activities. The sense of empowerment (*empower*) expressed by workers at project 1, and the substance that this empowerment lends to worker incentives, could well explain its positive showing on the performance indicators *dividends* and *profits*. Project 6 did not score positively on either of the empowerment variables. Worker-shareholders received little training at this project and their representatives complained that they were unable to participate fully in board meetings or raise matters of concern to workers because management did not give them sufficient time to consider and extend the agenda. Not surprisingly, the workers did not rate management as having outstanding ability, nor did they feel empowered. Project 6 recorded no benefits in terms of dividends or capital gains.

4.4.3 Cluster 3

This cluster shows that there is positive correlation between the performance indicators *housing, capgains* and *conditions*; empowerment variables *skillsf* and *partest*; management variables *labrel, extaudit, busplan, resolve,* and *incentives*; and the institutional variables *propvote, propprof, nolimit* and *noheirs*. The institutional variables all indicate a focus on maintaining incentives for worker-shareholders to invest more effort and money into the project. *Propvote, propprof* are attributes typical of most investor owned firms where voting and benefit rights are proportional to the equity invested by individual members. As explained in section 2, these property rights help to address the free-rider, horizon, portfolio and control problems that tend to undermine cooperative ventures. Ideally there should be no restrictions on the quantity of equity shares voluntarily purchased by investors. Ostensibly this condition (*nolimit*) was satisfied in all of the case studies except project 9, but in reality it applied only to worker-shareholders owing to strong expectations (sometimes formalised in business plans) that previous owners would ultimately sell shares to workers rather than buy them out. In addition, most of the projects imposed restrictions on the bequest of shares to multiple heirs (*noheirs*) in order to reduce the threat of free-riding by non-employees.

Cluster 3 highlights positive association between good institutions and management indicators such as forward planning (*busplan*), concern for worker-shareholder interests (*labrel, resolve*, and *incentives*) and financial transparency (*extaudit*). Good management may also explain the presence of empowerment variables within this cluster. *Partest* suggests that workers understand their rights and obligations as they participated in the establishment of the project, while *skillsf* shows that their training was extended to cover its financial requirements. Together, these elements of the institutional, management and empowerment constructs are positively related to performance indicators, particularly worker benefits *(housing, conditions and capgains)* flowing from longer-term investment. Workers at project 3 were particularly pleased to have rules against "smoke breaks" overturned.

All of the case studies had favourable scores on most of the variables contained by cluster 3, projects 1 and 3 in particular. This consistency might indicate a healthy trend in combining social and commercial objectives in land reform projects co-financed with public grants (as is the case for all nine projects).

4.4.4 Cluster 4

In cluster 4 there is positive correlation between the performance indicators *wages, collateral* and *pvtfin*; the institutional variables *moratorium, noout, exit* and *grpsize*; and the management variable *future*. Positive correlations between the institutional variables and these performance indicators may indicate financiers' preference for projects that are more liquid (*wages*) and which maintain worker incentives by preventing the transfer of shares to non-employees (*moratorium, noout* and *exit*).

All of the case studies imposed a moratorium of either three or five years on the sale of shares by the previous owner and employees. While appreciating that even a temporary moratorium could discourage member investment, a new equity-share project is unlikely to be considered creditworthy by lenders unless its equity and the previous owner's managerial expertise are "locked in" during the early, critical years of its life. Of course, it is also unlikely that a moratorium will have much bearing on creditworthiness in projects where workers initially take up a large share of the total equity. For example, projects 1 and 3 both imposed a five-year ban on the sale of shares, but project 3 with its much larger worker-shareholding (49 per cent) has not attracted loan finance (*pvtfin*). Projects possessing the management attribute *future* are also more attractive to private financiers as they can expect a gradual (rather than a sudden) transfer of ownership to workers over a period of time long enough to allow for adequate training and mentoring in decision-making skills. Project 5, for example, has a very specific plan to reduce the previous owner's shareholding relative to that of workers as the need for mentoring diminishes.

A further advantage to private lenders and investors in dealing with the previous owner as the majority shareholder is that the influence problem (Hendrikse and Veerman, 2001) is reduced. This may explain the presence of *grpsize* in the cluster as external financiers could find it difficult to influence policy decisions taken by directors representing large groups of workers with diverse interests in the project. For example, project 8 - which has no external finance - has a large worker shareholding and a large number of worker-shareholders relative to the other projects.

CONCLUSIONS AND POLICY IMPLICATIONS

This study suggests that many of the Surplus Peoples Project's concerns regarding farmworker equity-share schemes have been addressed in more recent projects. These relate to beneficiaries' participation and expectations, power relations between management and worker-shareholders, skills transfer and labour relations. However, some areas of concern still remain, namely, beneficiaries' tenure security, different skill and wage levels between men and women, literacy amongst worker-shareholders, and exit procedures. While it appears that progress has been made in the design and implementation of equity-share schemes since the SPP report, this conclusion may not be valid for two main reasons. First, it is possible that the worker representatives (trustees) who were interviewed might be more optimistic about the performance of their projects than the worker-shareholders. Second, this study did not present sufficient evidence of financial performance to corroborate the views of worker representatives and project managers.

The results of the cluster analysis lend support to the positive relationships postulated between sound institutional arrangements, effective worker empowerment, competent management and the successful performance of a farmworker equity-share scheme. Elements of these four constructs combined readily with each other in four natural groupings (clusters) of 35 variables measured across nine case studies of farmworker joint ventures in the Western Cape. Even so, trends were apparent within the clusters.

The first cluster contains only five variables, of which four are positive indicators of worker empowerment through skills transfer, gender sensitivity and share of equity owned in the enterprise. The second cluster is dominated by performance variables (relating primarily to enterprise profitability) and empowerment variables indicating a transfer of life skills to workers and active participation of their representatives in business decisions. Cluster 3 links measures of management quality (like competence in financial planning, labour relations and salary incentive schemes) to performance indicators such as improved housing and working conditions.

The fourth and last cluster is dominated by institutional variables and performance variables, both related to creditworthiness. In particular, cluster 4 emphasises institutional arrangements that maintain worker incentives by preventing shares from transferring to non-workers, and which preserve creditworthiness by preventing a sudden transfer of control to inexperienced owners.

Most importantly, the institutional variables occur in every cluster and gather in a way that reveals best practices. Cluster 3 includes property rights designed to eliminate free- and forced-rider problems in collective action, i.e. tradable voting and benefit rights assigned to participants in proportion to their individual investment. Cluster 4 highlights a trade-off between the ideal of fully transferable shares and restrictions on certain transfers to prevent free-riding by non-workers, or the loss of creditworthiness through sudden outflows of equity and managerial expertise. Cluster 1 favours the use of a company (rather than other legal entities) to empower workers participating in equity-share schemes. In South Africa, companies offer well-defined property rights, accommodate restrictions on share mobility, and entrench legal requirements for transparent and accountable management. Cluster 2 emphasises the need to ensure that farmworkers are able to exercise their property rights.

The cluster analysis undertaken in this research indicates that a successful farmworker equity-share scheme should be operated as, or like, a company with voting and benefit rights proportional to the investment made by each member, but with restrictions on certain share transactions. These include:

- Limits on the transfer of shares by employees to non-employees through sale or bequest. The workers' trust usually buys shares from workers who leave a project, disbursing the proceeds to the worker or, in the event of death, his or her estate.

- A temporary moratorium on the sale of shares (especially by the previous owner) coupled with a long-term plan to effect a gradual reduction in the proportion of equity held by the previous owner.

These institutional arrangements must further be accompanied by other best practices such as worker participation in the design of the equity-share scheme and its operating rules, provision for female representation in the workers' legal entity, and a general transfer of basic literacy, life and technical skills followed by continuous mentoring in financial, administrative and managerial skills so that worker representatives can perform their duties as office bearers, participate meaningfully in policy decisions, and ultimately establish their own enterprises.

In addition to these empowerment practices, an equity-share scheme should entrench financial transparency and accountability in all of its legal entities by appointing a reputable external auditor and adhering to broadly accepted procedures for reporting, conducting meetings and holding elections. These elements of good corporate governance usually stem from competent management, as do the presence of a long-term business plan (especially one accepted by a commercial financier), formal procedures for resolving labour disputes and protecting minority interests, incentive schemes for good performance, and a history of good labour relations.

A number of policy recommendations can be made. First, it is recommended that LRAD grants should be awarded only to beneficiaries of equity-share schemes that are co-financed by a private investor, commercial bank or other reputable institution as this ensures thorough financial analysis. In addition this approach eliminates the need for a separate financial analysis by the DLA and would therefore reduce the time taken for grant approval - a process that has taken four years at one case study. Excessive delays in grant disbursement hold up the empowerment process and damage the project's solvency and liquidity.

Second, it is recommended that the DLA should check the history of labour relations on the farms that apply for LRAD grants to establish equity-share projects. Objective measures of mutual trust and respect might include a comparative analysis of recent conditions of employment, skills training, average length of service, turnover in the workforce and *de facto* practices for hearing and settling labour disputes.

Third, the DLA should consider extending its grants to regular but seasonal farmworkers who wish to participate in established FWES. At present, only permanent employees are eligible for grants.

Farmworker joint ventures and equity-share schemes in particular may never satisfy everyone's view of land reform, even when it is impractical to redistribute land to small owner-operators. Nevertheless, recent experience suggests that well-designed equity-share schemes represent a viable mode of redistributing wealth and de-racialising commercial agriculture in South Africa.

SUMMARY

This study has two goals: First to identify the institutional and financial factors that influence the success of farmworker joint ventures (in particular farmworker equity-share schemes) using relevant theory from the body of New Institutional Economics and data gathered from nine case studies of existing farmworker joint ventures. Second, based on the factors identified, to determine what set of best institutional practices is most likely to promote the success of these schemes.

In 1998 it was estimated that around 50 equity-share schemes had been initiated in South Africa, mostly in the Western Cape wine and fruit producing areas where high land prices, lack of access to finance and markets, and lack of management and business skills create barriers to the entry of new farmers. Data gathered from nine farmworker joint ventures in 2001 were gathered to explore relationships between their institutional arrangements and their performance, management quality and worker empowerment. The enterprises were selected to ensure variation across a number of known indicators, such as use of external finance, size and gender composition of beneficiary group, relative shareholdings of farm workers, and choice of legal entities and business organization. The sample was designed to control, where possible, for non-institutional determinants of financial performance such as enterprise type and geographic region. In-depth interviews were conducted with the manager (frequently, the previous farm owner), worker trustees, external financiers, local officials from the Department of Land Affairs, and the firms

contracted to help with project planning, training and facilitation.

The purchase of land by a group of co-owners can produce a range of tenure and institutional arrangements. For example, the group may divide the land into separate pieces with each individual exercising exclusive rights over his or her own piece of land, or they may share the land with each member having inclusive use rights, especially to grazing land. Alternatively, the group may decide to become non-users and surrender their use rights in favour of benefit rights, such as a share in the profits, and hire a management team to operate the farm. It is also possible that a number of these strategies may be used together, or that rules governing use or benefit rights are missing or not enforced in which case the land becomes an open access resource. Each of these tenure arrangements has its own economic implications.

A farmworker equity-share scheme is a corporate farming entity that may, or may not, embrace the institutional arrangements needed to facilitate the profitable use of resources in land reform projects. A successful farmworker equity-share scheme should redistribute wealth and future benefit streams, empower farmworkers through skills transfer and their formal inclusion in policy making, retain or attract quality management, source capital from the private sector to finance new investment, i.e. preserve or enhance creditworthiness, improve worker productivity and labour relations, and provide for the transfer of both ownership and control of commercial farms to previously disadvantaged workers in the long-term.

Achieving these goals requires a mix of institutional arrangements that make for good corporate governance. First, joint farming ventures require decisive and accountable management for financial performance. Second, these institutions should eliminate or reduce the potential for free-riding to encourage investment by co-owners. Third, it is important that workers' interests in a joint farming venture are not diluted by a transfer of shares to non-workers as a result of bequests or sales to outsiders.

Perceptions of farmworker equity-share schemes appear to have improved. According to a previous study conducted by the Surplus People's Project, perceptions of these schemes were largely negative. However, this study shows that many of the concerns had been addressed in more recent projects. These relate to beneficiaries' participation and expectations, power relations between management and worker-shareholders, skills transfer and labour relations. However, some areas of concern still remain, namely, beneficiaries' tenure security, different skill and wage levels between men and women, literacy amongst worker-shareholders, and exit procedures.

A cluster analysis of variables measuring four constructs of a successful farmworker equity-share scheme, viz. sound institutional arrangements, effective worker empowerment, competent management and good performance, revealed positive relationships between these constructs. Elements of these four constructs combined readily with each other in four natural groupings (clusters) of 35 variables observed across the nine case studies. Most importantly, the institutional variables occur in every cluster and gather in a way that reveals best practices.

The results of the study indicate that a successful farmworker joint venture should be operated as, or like, a company with voting and benefit rights proportional to the investment made by each member, but with restrictions on certain share transactions. These include, limits on the transfer of shares by employees to non-employees through sale or bequest and a temporary moratorium on the sale of shares (especially by the previous owner) coupled with a long-term plan to effect a gradual reduction in the proportion of equity held by the previous owner.

These institutional arrangements must further be accompanied by other best practices such as worker participation in the design of the joint venture and its operating rules, provision for female representation in the workers' legal entity, and a general transfer of basic literacy, life and technical skills followed by continuous mentoring in financial, administrative and managerial skills so that worker representatives can perform their duties as office bearers, participate meaningfully in policy decisions, and ultimately establish their own enterprises.

In addition to these empowerment practices, joint ventures with farmworkers should entrench accountability. This is facilitated by transparency (for example, in reporting externally audited financial statements) but is ultimately ensured by the mobility of capital and a sound electoral process. These desirable features of corporate governance - along with formal procedures to resolve disputes, performance-based remuneration packages for managers and workers, a long-term business plan and a history of good labour relations – tend to manifest in projects that have competent managers.

A number of policy recommendations can be made. First, it is recommended that LRAD grants should be awarded only to beneficiaries of projects that are co-financed by a private investor, commercial bank or other reputable institution to ensure a thorough financial analysis of the project has been undertaken. Second, it is recommended that the DLA should investigate the history of labour relations on the farms that apply for LRAD grants to establish equity-share projects. Third, the DLA should consider extending its grants to regular but seasonal farmworkers who wish to participate in established farmworker equity-share schemes. At present, only permanent employees are eligible for grants. Whilst farmworker equity-share schemes may never satisfy everyone's view of land reform, recent experience suggests that well designed farmworker equity-share schemes represent a viable mode of redistributing wealth and de-racialising commercial agriculture in South Africa.

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APPENDIX 1: Case Study Questionnaire

23rd October 2001

Dear Respondent,

RE: Questionnaire – Equity-sharing Projects

The objective of this study is to learn from existing equity-sharing projects and other joint ventures with farm workers and disadvantaged communities by examining their financial and institutional arrangements to aid the establishment of similar projects in KwaZulu-Natal. This research is sponsored by USAID and is being conducted by the School of Agricultural Sciences and Agribusiness, University of Natal, Pietermaritzburg.

Confidentiality is guaranteed and the anonymity of respondents is assured. The names of projects that are used in this study will not be revealed in any published work and participants will each receive a copy of publications emanating from the study.

Your participation in this study is greatly appreciated.

Yours Faithfully,

Miss Sharon Knight

Research Assistant

Name of Case Study: ______________________________

Year of Registration of operating company: ____________________

Name of previous owner: ______________________________

Date of interview ______________________________

Postal Address: ______________________________

____

Telephone No.: ______________________________

Email: ______________________________

Respondents:
Structure: Facilitator or financial institution

Managing director (MD): Questions 1-7 ____________________

Questions 1, 2d, 3a, 3b, and 4: Chairman of Board if not answered by MD

Worker Trustee on Board of Directors (WTBD): Questions 1, 3a, 3b, 5 and 2a, 2c, 2d,

3c if not answered by MD ____________________

Chair of Trust: Questions 2b and 1,3a, 3b and 5 if not answered by WTBD

Question 7: DLA representative if not answered by MD ________________

Diagram of Ownership Structure (in terms of Companies, Trusts etc)

(Respondent: Facilitator or financial institution)

*** All lease agreements between parties to be specified**

Who decided on the current structure? ________________________________

Did it differ from an earlier recommendation?

Yes	No	Don't Know

If yes, how and why? ________________________________

____

Who made the earlier recommendation/plan? ________________________________

Who paid for the earlier recommendation/plan? ________________________________

Questionnaire

1. Board representation

Respondents: MD and Worker Trustee on Board of Directors (WTBD)

	Operating Company	Land-holding Company	Worker's Trust
Name of Chairperson			
Is the Chairperson a shareholder? Y/N/DK*			
Name of Manager			
Is the manager a majority shareholder? Y/N/DK*			
No. of directors/trustees			
No. of male directors/ trustees			
No. of shareholders			
No. of shareholding directors			
No. of shareholding directors with shares in Workers' Trust (SDWT)			
Educational status of SDWT:	1		
	2		
	3		
Farm experience of worker directors/trustees i.e. Position held at time of appointment	1		
	2		
	3		

***Y=Yes, N=No, DK=Don't Know**

Breakdown of shareholding – at time of establishment and now:

Shareholding	**Outside Investors**		**Previous Owner**		**Worker's Trust**		**Other (Specify)**	
	Est.	Now	Est.	Now	Est.	Now	Est.	Now
Operating Company %								
*Director representation								
Land-holding Company %								
*Director representation								
Trust %								
*Director representation								

*** Ratio of absolute terms (e.g. 2/5)**

2. The work force
(Respondent: MD or WTBD)

A. General

Permanent Workers – Currently Employed						
	Unskilled*			Skilled**		
	Number Est.	Now	Lowest Wage (Rands/month)	Number Est.	Now	Highest Wage (Rands/Month)
Male Shareholders:						
Black						
Coloured						
Other						
Female Shareholders:						
Black						
Coloured						
Other						
Male Non-shareholders:						
Black						
Coloured						
Other						
Female Non-shareholders:						
Black						
Coloured						
Other						

***For example, pickers, packers etc**
****For example, supervisors, drivers etc**

Who initiated the project? ____

Was participation as a shareholder voluntary?

Yes	No	Don't Know

Were facilitators contracted to implement the project?

Yes	No	Don't Know

If yes, which facilitators? ___________________________

Who paid for the facilitators and what proportion of costs did they cover?

	Yes	No	Don't Know	Proportion of costs covered
Government				
Donors				
Previous Owner				
*Other				

***Please specify**

B. Empowerment issues:
(Respondent: Chair of Trust)

Were worker-shareholders instructed in any of the following subjects since the new enterprise was first discussed with the workers?

	Shareholders received training	Quality of training received
Determination of rightful shareholders		
Shareholder rights and obligations		
Governance and voting procedures		
Procedures for distributing benefits		
Interpretation of financial statements		
*Other		
	1= yes 2= no 3= don't know or uncertain	1= very good 2= good 3= adequate 4= poor 5= very poor

***Please specify**

What provisions were made to train worker-shareholders as office bearers in the Trust (e.g. Trustees, treasurer) or Company(ies) (e.g. Directors)?

____

____

____

____

Who paid for the training and what proportion of training costs did they cover?

	Yes	No	Don't Know	Proportion of costs covered
Government				
Donors				
Previous Owner				
*Other				

***Please specify**

From what sources did the workers finance their shares? (e.g. DLA grant, savings, loan)?

	Type of financial support	Source	Aggregate level of financial support (Rands)
1.			
2.			
3.			

Did each worker-shareholder initially purchase the same quantity of shares?

Yes	No	Don't Know

What major benefits did the worker-shareholders anticipate from the equity-sharing arrangement? Rank their importance. Which of these expected benefits have materialized and how were they distributed?

Benefits	**Expected? Y/N**	**Importance (1,2 etc)**	**Distribution Method* if materialized**
Residential plots			
Improved housing			
Dividend income			
Capital gains on shares			
Tenure security			
Ability to influence wages			
Ability to influence working conditions			
Secure employment			
Property ownership			

* Benefits may have been distributed equally, by seniority in the workforce, by size of shareholding, etc.

Were there any unanticipated benefits for the worker-shareholders?

____

____

Were there any unanticipated drawbacks for worker-shareholders?

____

____

Have the Trustees added items to the agenda discussed by directors of the operating company? Expand.

____

____

Are any of the current office bearers in the Trust or company women?

Yes	No	Don't Know

If yes, what proportion are women? ____________________

What was the most recent dividend per share held by the workers' Trust (Rands)?___________

Can the Workers' Trust withhold part of its dividend earnings from its own shareholders?

Yes	No	Don't Know

If yes, for what main purpose(s)?

1. ____
2. ____

If the workers' Trust can withhold part of its dividend earnings from its own shareholders, has this happened or been proposed yet and what was the reaction?

	Yes	No	Don't Know	Reaction
Happened				
Proposed				

Please rate the following as perceived by the Workers' Trust:

	Rating (1-5)*
Management - technical ability	
Management – investment decisions	
Management – worker/management relations	
Worker-shareholder satisfaction with the project	
Level of worker-shareholder participation in decision-making	

***1= excellent, 5= very poor**

C. Tenure security:
(Respondent: MD or WTBD)

	Land-holding Company			**Operating Company**			**Trust**			**Workers (Number)**	
	Yes	No	Don't Know	Yes	No	Don't Know	Yes	No	Don't Know	Male	Female
Who owns the land on which workers' reside?											
Workers with lease agreements, lease land from:											

If workers live on the farm, do not own the land on which they reside, but lease the land:

	Yes *	**Yes ****	**No**	**Don't Know/ Uncertain**
Can workers pledge the land as collateral?				
Can workers sub-let the land?				
Can workers sell their lease to another worker?				
Can the land be bequeathed to a non-worker?				
Are workers compensated for any improvements that they make?				
Are workers provided with a piece of their own land on which they can grow crops, plant trees etc?				
Are the lease agreements written contracts?				
Do workers have the option to purchase their residential land?				

***Yes with authorization from the board**
****Yes without authorization from the board**

What is the length of the contract/lease agreement (years)? ______________________

What is the rental rate for residential property?

	Rands
Unimproved plot	
Service plot	
Small house (one room)	
Larger house (more than one room)	

If workers live on land owned by a company, what happens to his or her residential rights when he or she:

- Resigns? ______________________
- Is (legitimately) fired or retrenched? ______________________
- Dies? ______________________

D. Share Information:
(Respondent: MD or Chair of Board)

	Operating Company	**Land-holding Company**	**Trust**
Average value of shares acquired by workers initially (Rand/worker)			
Average no. of shares acquired by workers initially (shares/worker)			
Latest price assessment of worker shares (Rand/share)			
Length of moratorium on dividend payment (months)			
Length of moratorium on sale of shares by workers (months)			
Length of moratorium on sale of shares by original owner (months)			

Are there provisions for a gradual reduction in the previous owner's shareholding?

Yes	No	Don't Know

If yes, please expand: ______________________
____

3.Institutional arrangements

A. Accountability and transparency

(Respondent: MD/ Chair of board and WTBD/Chair of Trust)

	Operating Company			Land-holding Company			Trust		
	Yes	*No*	*Don't Know*	*Yes*	*No*	*Don't Know*	*Yes*	*No*	*Don't Know*
Annual external auditing of financial records									
Audited statements & annual reports circulated to shareholders before AGM?									
Minutes of board meetings readily available to shareholders?									
How frequently is the budget reviewed? (Annually, quarterly, etc?)									

*B. Election procedures/issues**

(Respondent: MD/ Chair of board and WTBD/Chair of Trust)

	Operating Company	Land-holding Company	Trust
Are the directors/Trustees elected by secret ballot?			
Are the general meetings at which board members/Trustees elected advertised to shareholders?			
What period of notice is given for such a meeting? (Weeks)			
What is the minimum number of shareholders required for election of board members/Trustees?			
What is the minimum number of shareholders required to convene an extraordinary meeting to contest a decision taken by the Trustees?			
Term of office – directors (years)			
Term of office – Trustees (years)			
Can directors serve more than 1 consecutive term?			
Can Trustees serve more than 1 consecutive term?			
Frequency of Trustee/director meetings (months)			
Can non-shareholders vote for directors/ Trustees?			
Are candidates nominated in proportion to shareholding?			

***Where relevant, record response as Yes/ No/ Don't Know (uncertain)**

Were directors formally nominated and elected?

Yes	No	Don't Know

Are the directors aware that they are collectively liable for taking decisions that are not in the best interests of the company?

Yes	No

Are the directors obliged to declare their personal shareholdings in, and transactions with, the company?

Yes	No	Don't Know

Do any of the workers representatives in the company board (s) or Trust have previous experience at this level of business administration?

Yes	No	Don't Know

If yes, expand:

____

____

C. Property rights/ Tradability of shares:
(Respondent: MD or WTBD/ Chair of Trust)

	Yes**	**Yes*****	**No**	**Don't Know**
Can shares be bequeathed to multiple heirs?				
Can shares be bequeathed to outsiders? *				
Can shares be sold at any time to another permanent worker?				
Can workers sell their shares at any time back to the company?				
Limit on No. / % of shares held?				
If a shareholder buys additional shares does he/she acquire a greater share of profits?				

*A person who does not work on the farm.
**** Yes with authorization from the board**
***** Yes without authorization from the board**

Are workers made aware of changes in the assessed value of shares?

Yes	No	Don't Know

If yes, how? ____

What happens to a worker's shares when he or she exits the project?

- Resigns (voluntary exit)? ____
  ____
- Is (legitimately) fired or is retrenched (involuntary exit)? ______________
  ____
- Dies? ____
  ____

How can a new employee obtain shares in the scheme?

____

____

Of the benefits that have accrued to workers, what approximate percentage comes from the following?

Dividends	*Increase in Share Price*	*Other**	*Other**	*Total*
				100

**Please specify*

4. Financial health
(Respondent: MD or Chair of Board of operating company)

Audited Statements – establish:

Nominal value of:	**At End of First Financial Year***	**At End of Last Financial Year***	**Source(s) of Debt**
Land and fixed improvements (Rands)			
Longer term assets – machinery (Rands)			
Current assets (Rands)			
Longer term debt (Rands)			
Short-term debt (Rands)			
Other current liabilities (Rands)			
Gross income (Rands)			
Gross operating expenses (Rands)			
Total interest paid on debt (Rands)			
Total income tax paid (Rands)			
Dividends paid on preferential shares (Rands)			
Dividends paid on ordinary shares (Rands)			
Retained earnings (Rands)			

***Please specify relevant year**

5.Disputes

(Respondents: MD and workers' representative on Board of operating company or Chair of Trust)

	What were/are the three most contentious issues that the directors/Trustees have faced to date?	Has the problem been resolved?	If yes, what action was taken?	Arbitration required?	Persons involved in settling the dispute
MD	1				
	2				
	3				
WTBD	1				
	2				
	3				
Chair of Workers' Trust	1				
	2				
	3				
Codes	Describe problem	1= yes, fully 2= yes, partially 3= no	Describe solution	1= yes 2= no	Name

What procedures are followed to settle disputes?

____

____

____

____

6.Enterprise
(Respondent: MD)

Highest educational qualification: ______________________

Farming experience (years) ______________________

Type(s) of enterprise(s) and land area:

	Contribution to Gross Income (%)		Size of enterprise in terms of land area (hectares)	
Enterprise Type	At End of First Financial Year	At End of Last Financial Year	Before Company was registered	At End of Last Financial Year

What percentage of the operating company's gross income is earned from local sales and what percentage is earned from export sales?

Local % ______________________

Export % ______________________

What percentage of output is packed or processed on-farm and what percentage is sold to packers/processors?

Packed/processed on-farm % ______________________

Packed/processed off-farm % ______________________
What supply contracts does the operating company have at present?

	Client	**Product**	**Contract Length**
1.			
2.			
3.			

What factors have adversely affected the economic prospects of this industry?

	Enterprise specific problems	**Regional Problems (e.g. drought, disease, etc)**	**Policy, Industry and Market Problems**
1.			
2.			
3.			

Does the operating company have a long-term business plan?

Yes	No	Don't Know

If yes, how does the plan limit the business risk exposure of shareholders?

	Yes	No	Don't Know	Expand
New: irrigation/ controlled environment				
Enterprise diversification				
Minimum liquidity reserves (e.g. cash; unused credit)				
Insurance 1*				
Insurance 2*				
Insurance 3*				
Other*				
Other*				

***Specify**

Are there any special provisions to protect the investment made by worker shareholders?

____

____

Is there an incentive scheme for the workers and the manager? Explain.

Workers: ____

____

____

____

Manager: ____

____

____

____

Do worker-shareholders receive any of the following (or other) benefits?

	Yes	No	Don't Know	Expand
Medical Aid contributions made by company				
Fully paid Vacation Leave (days/annum)				
Fully paid Sick Leave (days/annum)				
Unemployment benefits through company contributions to UIF				
Pension benefits				

Has the company pledged any of its assets to raise loan capital?

Yes	No	Don't Know

If yes, what major assets has it encumbered? ____

____

If loans were used to finance the workers' equity, were the loans made directly to their trust, through the operating company or through the land-holding company?

	Yes	**No**	**Don't Know**	**Source of Loan**	**Loan size (Rands)**
Trust					
Operating Company					
Land-holding Company					

If commercial Banks made loans to finance the workers' equity, who approached the Bank and negotiated the terms of the loan?

___

___

Level of Decisions taken by Board and Manager:

1. Is Board approval required to pledge land as security for a long-term loan?

Yes	No	Don't Know

2. Is Board approval required to increase the line of short-term credit (e.g. the overdraft facility) to finance seasonal inputs?

Yes	No	Don't Know

3. What is the maximum payment the manager can make without co-authorization?

R___

4. Can the manager enter into contracts with buyers and suppliers without Board approval?

Yes	No	Don't Know

7. Issues of importance to DLA
(Respondent: MD or DLA representative)

Was an application made to the DLA for grant funding?

Yes	No	Don't Know

Did DLA reject an application for a pooled land grant to finance the project?

Yes	No	Don't Know

If yes, why was the application rejected?

____

____

Were any of the individual workers listed in the application rejected?

Yes	No	Don't Know

Was the original equity-sharing proposal modified in any way to secure a DLA grant to finance the workers equity? Explain.

____

____

Did DLA provide a grant despite the presence of capital contributions from any other lender or investor?

____

____

How long did it take to facilitate the project before shares were issued to workers?

____

____

Are there any special characteristics of the project that limit its replicability in other enterprises or regions?

____

____

____

APPENDIX 2: Data used in the cluster analysis

Variable	Project								
	1	2	3	4	5	6	7	8	9
busplan	1	1	1	1	1	1	0	1	-1
capgains	1	-1	1	-1	-1	1	1	-1	0
collateral	1	0	0	0	0	1	1	0	0
company	0	1	1	1	0	0	1	0	0
conditions	1	1	1	1	1	1	0	1	0
decpower	1	1	1	1	1	0	1	1	-1
dividend	1	0	0	0	0	0	0	0	0
empower	1	1	1	1	1	0	0	1	0
enterprise	1	0	0	0	0	0	0	0	0
equity	0	0	1	0	0	0	1	1	1
exit	1	1	0	0	1	1	0	1	-1
extaudit	1	1	1	1	1	1	1	1	-1
femtrust	0	1	1	1	0	0	0	1	0
future	1	0	0	0	1	1	0	1	-1
grpsize	1	0	0	0	1	1	1	0	0
housing	1	1	1	1	1	1	1	1	1
incentives	1	1	1	1	1	1	0	0	0
labrel	1	1	1	1	1	1	1	1	-1
mgtqual	1	1	1	1	1	0	1	1	-1
moratorium	0	0	0	1	1	1	1	0	-1
noheirs	1	0	1	0	1	1	1	1	-1
nolimit	1	1	1	1	1	1	1	1	-1
noout	0	1	0	0	1	1	1	0	-1
partdm	1	1	1	1	1	0	0	1	-1
partest	1	1	1	1	0	1	0	1	1
profits	1	0	1	0	1	0	1	0	0
propprof	1	1	1	1	1	1	1	1	-1
propvote	0	0	1	0	1	1	0	1	-1
pvtfin	1	1	0	1	0	1	1	0	0
resolve	1	0	1	1	1	1	1	1	-1
skillsf	1	1	1	0	1	1	0	1	0
skillsg	0	1	0	1	0	0	0	1	0
skillsl	1	1	1	1	0	0	1	0	0
skillsm	0	1	1	0	0	0	1	1	0
wages	1	0	0	0	1	1	-1	-1	-1

Notes: -1 = missing value.