



Trip Report: Innovating Institutions

South Africa: 27 October – 9 November 2001

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This research project aims to reveal and find solutions for the institutional and finance problems that lead to unprofitable and unsustainable use of co-owned resources, depriving the poor of current income, capital gains and new livelihood opportunities. In South Africa, the first stage of the project is to undertake a number of case studies of successful equity-sharing projects in one region of South Africa, Western Cape province, in order to draw up a set of best institutional practices for implementing similar schemes in another region, KwaZulu Natal. The objective of my trip was to collaborate with another researcher, Sharon Knight, in the case study research. Our combined expertise will hopefully result in findings and recommendations from several aspects, including financial, institutional, economic, and social.

In South Africa, equity-sharing projects are based on land grants made available to farm workers since 1996 by the South African Department of Land Affairs (DLA) to finance the purchase of shares in land-based enterprises. A number of publications maintain that in the Western Cape province the investment of these grants in equity-sharing enterprises have redistributed commercial farmland and wealth while improving agricultural performance. These are company operations in which financial equity is shared between the landowner and historically disadvantaged farm-workers, benefits and voting rights are proportional to tradable individual shareholdings, and companies must comply with legal requirements that promote financial transparency and accountability. The company owns the operating assets and the enterprises are managed by an experienced farmer, frequently the landowner, who is usually the majority shareholder.

When I arrived in Western Cape Province, Knight (with the assistance of a Cape Town firm, Hamman & Schumann, that has acted as facilitator in setting up a number of equity-sharing projects) had selected a number of farm operations with equity-sharing projects to visit and interview. While the paper work and preparatory activities for these equity-sharing schemes had begun a number of years ago, when Knight contacted the farm enterprises it became evident that many of the equity-sharing schemes had just begun operating within the last year. As a matter of fact, on several of the farms the farm workers had not yet received their block grant from the DLA and therefore the shareholding company or trust had not yet been established. As a result, not as many equity-sharing farm operations were interviewed as had been hoped, nor was it possible to obtain financial information on the operations because of the short time they were functioning.

Knight carried out in-depth interviews, using a structured, open-ended questionnaire, with farm managers, board members, workers, trustees, external financiers, and local officials from the Department of Land Affairs (DLA). These interviews examined institutional arrangements and how they impact on internal rules, practices, management, compliance, incentives, and access to finance.

I carried out unstructured interviews with small groups of women farm workers in order to collect information on what their experiences have been as shareholders and farm workers and what their expectations are. During the time I was in South Africa, we visited 7 farms and I was able to interview 13 shareholders on 5 farms. I also interviewed several professionals who have worked on this issue in the Western Cape province: Johann Hamman of Hamman & Schumann firm, Ruth Hall of Stellenbosch University, and Estelle Engelbrecht of the NGO Women's Forum.

This very small sample of equity-sharing projects revealed a range of differences on a number of aspects among the farms. As already mentioned, several of the equity-sharing farms had been functioning for 3-4 years, however most of them had just begun to operate in the last 6 months, and several had not yet received the LRAD (Land Redistribution for Agricultural Development) grant and therefore were not yet officially operating as equity-sharing enterprises. There was a moratorium of over a year (approximately mid-1999 to end of 2000) on the part of the DLA in approving and paying out the grants, which explains why many of the projects have been delayed in beginning operations.



Olive Tree Farm & Vineyard

Because of the delays in the paying out of the LRAD grants, farm owners who had hoped to use the LRAD grant to begin a new venture or expand operations, had to find other means to begin their particular project. For example, one farm obtained a loan from the South African Wine Trust, another from SAFCOL (South African Forestry Company). One farm put up its own capital to buy wine grapes and planted them with labor donated by the future shareholder workers with the expectation that the LRAD grants would eventually be paid out.

A preliminary observation with regard to the ethnic and gender composition of shareholders is that the majority of them are coloured with a minority of Xhosa, and that the proportion between men and women is fairly even. This is consistent with the ethnic and gender composition of permanent farm workers in the Western Cape.



Processing Plant Workers

The level of enthusiasm and commitment to equity-sharing enterprises among farm owners/managers and among farm workers also varies tremendously. While the majority of farm owners/managers expressed their agreement with the need to improve farmworker income, living standards, and social status, and agreed that equity-sharing is an appropriate means for attaining these objectives, only a small minority seemed to understand the need to empower workers and to integrate them into the management of the farm operation.

All farm owners/managers maintained that commercial agriculture in South Africa has been undergoing a crisis, particularly export-oriented agriculture such as the wine producing and fruit growing farms of the Western Cape. They emphasized that worker shareholders would not be receiving benefits at this time (many of the projects have 5-year moratoriums on paying out of dividends), and that in the short term any profits would have to be re-invested in the farm operation.

Similarly, among the farmworkers there were different levels of understanding and enthusiasm. The majority is unsure of what their rights are as shareholders, what terms were set out in the Trust Deed or Company Shareholding documents. In the majority of the projects, shareholders do not feel that they are equal with other shareholders such as the farm owner(s). Nor do they feel that they have any real say in the management of the farm operation. Knowledge levels and perceptions of equity and

empowerment would seem to depend on the level of training the shareholders have received.

In general, the training for most of these projects seemed very deficient. Some equity-sharing projects were contracting for more training additional to that paid by the LRAD program; in these cases, there seem to be much higher levels of knowledge and understanding of how the shareholding enterprise functions. While most of the shareholders were anxious to see some tangible benefit from the project, some expressed the opinion that it would take a number of years before dividends, profits, or other benefits would be realized.

Some of the main issues expressed by the worker shareholders I interviewed are: payment of dividend income, housing ownership, and participation in the management of the enterprise. Sharon Knight and myself will be writing a paper on these issues and on the social and gender aspects of equity-sharing projects in the Western Cape Province. Knight gathered quantitative data on the ethnic and gender composition of the worker shareholders, as well as skill and income levels. My interviews collected qualitative information on some of the social and gender constraints women shareholders and workers face, on some of the issues in the implementation of these enterprises, and their expectations for the future.

Travel Itinerary:

- 27-28 October: Travel from Madison, Wisconsin (USA) to Cape Town (South Africa)
- 29 October – 8 November: Visits to 7 equity-sharing farm enterprises in Western Cape Province; interviews with farm owners and/or managers, shareholders, and trustees. We averaged one farm visit per day. The round-trip travel between Cape Town and the farms took from 2 to 5 hours, and the interviews usually lasted 3-4 hours.
- 8-9 November: Travel from Cape Town (South Africa) to Madison, Wisconsin (USA)

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