Establishing Farm-based Equity-share Schemes in KwaZulu-Natal: Lessons from USAID's BASIS Research Programme

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This proceedings issue presents a series of papers summarising attempts to establish 'best practice' equity-share schemes on two commercial farms in the province of KwaZulu-Natal. The main object of this participatory research was to test and refine land reform policy influencing the role of equity-share schemes as instruments of land and agrarian reform in South Africa.

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PREFACE

Equity-share schemes have been accepted by the South African government as a means of redistributing land and wealth in agriculture. These schemes were originally initiated by the private sector in the early 1990's. They have since been implemented in wine, fruit, vegetable, olive, cut flower, dairy and eco-tourism industries around South Africa. The initial feasibility of any equity-share scheme is dictated by the ability of workers to purchase equity. In South Africa, the poor cannot make significant contributions of their own to the purchase of equity or land. Public grants awarded under the Land Redistribution for Agricultural Development (LRAD) programme will therefore play a key role in the establishment and spread of these schemes.

Typically, an equity-sharing scheme is a private company in which financial equity is owned by workers, managers and other investors in the form of tradable shares that define their individual rights to vote for directors and to benefit from the profits and capital gains generated by the company. This is quite distinct from a producer cooperative where voting and benefit rights are egalitarian and cannot be traded at their market value (resulting in free- and forced-rider problems that undermine incentives to invest in the enterprise). Nevertheless, equity-share schemes and producer cooperatives are both instruments of collective action. It is this fundamental commonality that linked BASIS researchers in South Africa and Kyrgyzstan where agrarian reform is driving a transition from state and collective farm ownership to private groups and individuals.

In brief, the purpose of this BASIS research programme is to:

- identify institutional and organisational practices that constrain the success of group enterprises created by privatisation and land reform programs, depriving the poor of current income, capital gains and new livelihood opportunities,
- determine best institutional practices that broaden and deepen beneficiaries' access to resources and encourage their productive use,
- apply these best practices to the design or redesign of one or two equity-sharing enterprises that will be facilitated in each country, and,
- identify measures to assess and monitor project performance, where performance reflects financial health, poverty alleviation and the empowerment of beneficiaries, especially women.

Research commenced in October 2001. In South Africa, the first year was dedicated to two main activities; (a) continuation of the annual census surveys of farmland transactions initiated in 1997 to monitor the redistribution of farmland in KwaZulu-Natal, and (b) case studies of equity-share schemes in the Western Cape province to identify best institutional practices. Towards the end of the first financial year (September 2002) a number of prospective equity-sharing projects were investigated and two were selected to pilot the best institutional practices in KwaZulu-Natal. These projects, a beef enterprise near Mount West (Sherwood), and a beef and game enterprise near Noodsberg (Clavelshay), were chosen because they included features not anticipated by the LRAD programme and therefore presented an opportunity to test and improve the programme. By October 2002, facilitators from Lima Rural Development Foundation had already started the process of explaining equity-sharing arrangements to prospective participants at the experimental projects.

The mini-conference that generated these proceedings had two main objectives; first to disseminate the results of BASIS research ahead of the programme's termination at the end of 2004, and second to inform policy-makers and other agents driving agrarian reform in South Africa about flaws encountered in the design and application of the LRAD programme while facilitating the experimental projects. This facilitation process had been running for almost two years when the mini-conference was convened in July 2004. Attendance was restricted to a total of forty invited delegates representing national and provincial government departments of Land Affairs, Agriculture and Housing, commercial banks, equity-share schemes, non-government organisations, USAID Pretoria, and BASIS (see List of Delegates).

The first session of the mini-conference offered two background papers. The first, by Ferrer and Semalulu, highlights the need to accelerate LRAD by presenting detailed estimates of the rate of land redistribution in KwaZulu-Natal over the period 1997-2002, and by comparing the performance of private and government-assisted land transactions with respect to the quantity and quality of land redistributed and the gender sensitivity of these transfers. The second paper by Knight, Lyne and Roth identifies best institutional practices for equity-share schemes using cluster analysis to group indicators of good project performance, sound institutional arrangements, effective worker empowerment and competent management observed in case studies conducted in the Western Cape during 2001. KwaZulu-Natal had no equity-share schemes at that time.

The second session was dedicated to the two experimental projects initiated in KwaZulu-Natal during 2002. Peter Greene's paper explains the innovative organisational and financing arrangements developed for Sherwood and outlines policy and other problems that continue to hold up their implementation. Kathy Pitout's paper on Clavelshay focuses on a different obstacle. Here, the equity-sharing scheme requires relocation of farmworker homes. The farmer is willing to donate land to his workers but legislation governing the establishment of townships (and hence the award of housing grants) creates prohibitively high costs when applied to a small rural development. Many opportunities for equity-sharing on commercial farms will be lost if the policy divide between land reform and housing is not bridged.

In the third session, Nonkulunga Ngobese drew on her personal experience to describe the facilitation process at Sherwood. Her refreshing paper considers the equity-sharing proposal from the perspective of a beneficiary household and shows how misconceptions can be corrected using appropriate methods to communicate difficult concepts. The final paper by Bernadine Gray looks to the future and considers the problem of measuring and monitoring the performance of equity-share schemes. Although this research is still in progress, her paper presents a thought-provoking discussion of performance indicators ranging from financial ratios to measures of poverty alleviation, empowerment and good governance.

It would have been gratifying to start the final session of policy debate with an announcement that grant funding had been approved for at least one of the two experimental projects. Sadly this was not the case and discussions soon converged on problems created by a narrow interpretation of the LRAD programme in KwaZulu-Natal. These discussions were highly constructive as delegates from the Western Cape described a 'soft' approach in which they substitute leases for land purchase, make use of tenure security legislation to access government grants for equity and housing, and classify regular seasonal workers as full-time employees for the purpose of securing LRAD grants. At the time of the mini-conference only the last of these concessions had been accepted by the Department of Land Affairs in

KwaZulu-Natal. Without this concession, most of the prospective beneficiaries at Sherwood would not have been eligible for LRAD grants owing to seasonal employment patterns created by its beef enterprise. Local attitudes softened again at meeting of the District Screening Committee convened in Pietermaritzburg on 17 November 2004 to reconsider Sherwood's application for LRAD grants. The committee accepted a rental agreement between the proposed enterprise and the owners of Sherwood on condition that the lease period was extended from eight to ten years. In addition, BASIS researchers may have established an important precedent by securing permission to defend their application when it is reviewed by the Provincial Grant Approvals Committee (PGAC). This concession could significantly reduce the time taken to reach a decision by improving the flow of information at PGAC meetings. While BASIS cannot presume to be the only cause of these changing attitudes, its participatory approach to research has certainly obliged government to reconsider the procedures and criteria it uses to evaluate equity-share schemes for support.

LAND REDISTRIBUTION IN KWAZULU-NATAL: AN ANALYSIS OF FARMLAND TRANSACTIONS FROM 1997 UNTIL 2002

Stuart Ferrer & Allan Semalulu[1]

ABSTRACT

Census surveys of land transactions sponsored by BASIS I & II show that 178,000 hectares of the Province's commercial farmland transferred to previously disadvantaged South Africans over the period 1997-2002. This represents almost 3.5 per cent of the farmland originally available for redistribution in 1994. While the average rate of redistribution at 0.5 per cent per annum falls short of government's target (2.0 per cent per annum), the launch of its 'Land Redistribution for Agricultural Development' (LRAD) program in August 2001 had a dramatic impact on land redistribution in 2002. In KwaZulu-Natal, the rate of land redistribution doubled and, for the first time since 1997 when the surveys commenced, transactions financed solely from government grants redistributed more land than did privately financed transactions. In addition, 14 farms were financed with a combination of LRAD grants and private mortgage loans representing a new mode of redistribution. On average these 14 farms were larger and of better agricultural quality than those purchased privately. At this early stage, LRAD has been much more successful at engaging financial institutions than the earlier SLAG program. It has also been more successful in targeting women. Women purchased seven of the 14 co-financed farms, either as sole owners or as married co-owners.

1 INTRODUCTION

The deracialisation of land holdings in South Africa is viewed as an urgent imperative for political stability and growth of the economy. At the beginning of the 1990's, it was estimated that 12 million black rural people lived on only 17.1 million hectares of land, whilst 60,000 white commercial farms occupied 86.2 million hectares (Baber, 1991: 54). This highly skewed distribution of land in South Africa was legally entrenched by the Natives Land Act of 1913. This Act designated about eight per cent of the country's agricultural land as Native Reserves, which became the only areas that could be legally farmed by Africans. With the transition to democracy in 1994, an African National Congress (ANC)-led government initiated a land redistribution programme by offering Settlement/Land Acquisition Grants (SLAG) to previously disadvantaged South Africans to purchase formerly white-owned farms on a willing buyer-willing seller basis. A means test applied to SLAG applicants precluded individuals with a monthly household income greater than R1,500. Consequently, the relatively wealthy had to purchase land privately. The objective of the grant programme was to redistribute 30 per cent of the country's commercial farmland (about 25 million hectares) to previously disadvantaged South Africans within five years (ANC, 1994).

By the end of 2000, the SLAG redistribution programme had transferred about 780,407 hectares to previously disadvantaged households, which represented only three per cent of the 25 million hectares that the government had initially hoped to redistribute during this period. The Ministry of Agriculture and Land Affairs (MALA) responded by introducing a new redistribution programme in 2001 – the Land Redistribution for Agricultural Development (LRAD) – aimed at transferring 30 per cent of white-owned farmland to previously

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disadvantaged South Africans over 15 years (MALA, 2001). In addition, at least one-third of the land redistributed by LRAD is intended to benefit women.

Means testing was abandoned under the LRAD programme. Instead, the size of the grant awarded to a beneficiary depends on the amount of equity and debt capital the applicant is able to contribute to the enterprise. A minimum own contribution of R5,000 (comprised of savings, loan finance and own labour or 'sweat equity') is matched with a grant of R20,000. Higher own contributions are matched with higher grants[2]. Aspiring farmers have been encouraged to purchase land by combining an LRAD grant with equity and mortgage loan finance. Although the programme was introduced during August 2001, no LRAD-assisted farmland transfers were recorded in KwaZulu-Natal until 2002.

The U.S. Agency for International Development (USAID) sponsored BASIS Collaborative Research Support Programme has monitored government (SLAG) and private farmland transactions in KwaZulu-Natal since 1997 (Graham & Lyne, 1999; Lyne & Darroch, 2003). This study augments these previous analyses of commercial farmland transactions by analysing the Deeds of Transfer recorded in KwaZulu-Natal during 2002. The primary focus of this paper is to examine the initial performance of LRAD. The study also aims to examine the response by lending institutions to LRAD, and to examine the characteristics of farmland acquired by previously disadvantaged females compared to their male counterparts.

This paper is structured as follows: Section 2 gives an overview of the process used to identify land transactions that transferred ownership from previously advantaged to previously disadvantaged people. This is followed by a discussion of the results from the 2002 census survey. The paper ends with conclusions and policy recommendations to help government meet its goal of redistributing farmland in order to promote political stability and facilitate economic growth.

2 DATA SOURCES

Data for the study were drawn from annual census surveys of the Deeds of Transfer recorded for farmland in KwaZulu-Natal from 1997 to 2002. Lyne and Darroch (2003) previously analysed data from 1997–2001 census surveys. Land transactions recorded by the Deeds Registry in 2002 were filtered and stratified by race, gender and mode of land acquisition (see Figure 1)[3]. Under the filtration process, all transactions listed separately by the Deeds Registry for each subdivision of land, but acquired by the same owner, were consolidated. Then all transactions involving areas smaller than one hectare and those with per hectare prices exceeding that commanded by the best quality agricultural land in KwaZulu-Natal (R30,000) were removed in an attempt to exclude transfers of rural land to residential and industrial uses.

Transactions involving land transfers from one formerly disadvantaged owner to another were removed unless the land transferred from males to females. The remaining farmland transfers were then classified as 'advantaged to advantaged', 'advantaged to disadvantaged' and 'disadvantaged to advantaged' based on the race and gender of the previous and new owners. The 'advantaged to disadvantaged' transactions were then categorized into five strata

[2] The maximum LRAD grant of R100,000 requires an own contribution of R400,000.

[3] The stratification of 2002 land transactions differed from the stratification applied to the 1997-2001 census surveys (see Graham & Lyne, 1999) in order to investigate transfers financed with a combination of LRAD grant and private mortgage loans.

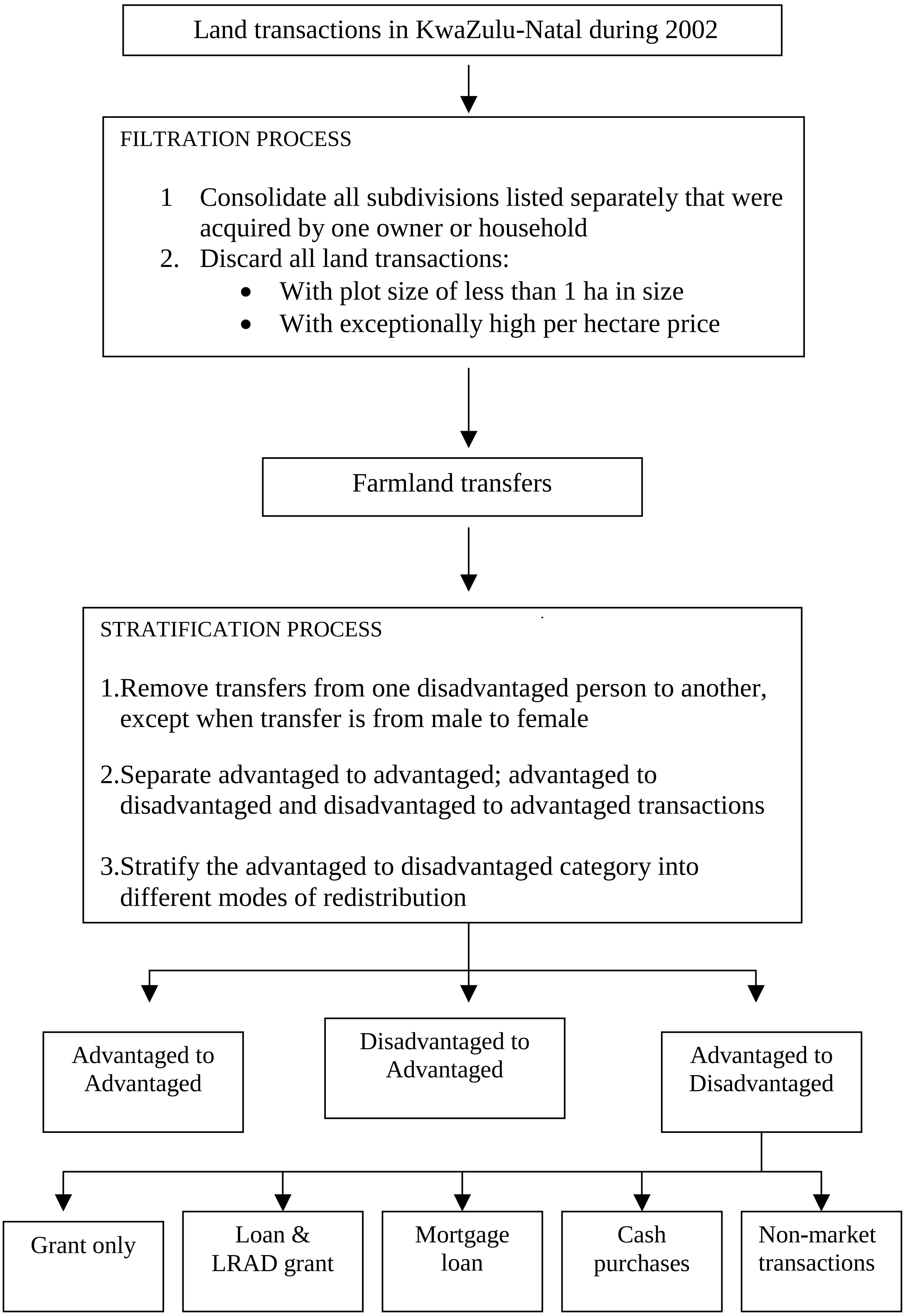

Figure 1: Filtration and stratification of land transaction census data in KwaZulu-Natal, 2002

according to mode of land acquisition, namely **grant** only[4], **mortgage** financed, **loan and LRAD grant** financed**, cash** purchases and **non-market** transfers (bequests and donations).

The term ‘advantaged’ refers to legal and juristic persons that had the right to transact in land prior to 1994 (i.e. whites, government departments and white-owned corporate entities). The ‘disadvantaged’ group comprises those persons excluded from land markets on the basis of racial segregation (i.e. blacks, Indians and coloureds). In addition, transfers from previously disadvantaged men to previously disadvantaged women were retained within the previously disadvantaged category so that the definition of ‘disadvantaged’ refers to all individuals who were previously excluded from land markets on the basis of racial and, to some extent, gender segregation. Lyne and Darroch (2003) note that this process is not entirely accurate because race and gender are established primarily on the basis of the transacting parties. As a result, the true annual rate of land redistribution in KwaZulu-Natal may be slightly understated.

3 THE RATE OF LAND REDISTRIBUTION

The total area of all farmland transferred to new owners in KwaZulu-Natal annually during 1997-2002 is presented in Table 1. At the time of South Africa’s political democratisation in 1994, there were some 5.3 million hectares of land available for redistribution in KwaZulu-Natal (Lyne & Darroch, 2003) comprised of commercial farmland and state owned land, including public protected nature conservation areas. It is estimated that 2,167,822 hectares, or 40 per cent, of this land transferred to new owners (advantaged and disadvantaged groups) during 1997-2002. The total area of farmland transacted in KwaZulu-Natal during 2002 is similar to the mean annual area transacted during the preceding five years.

The annual rate of farmland redistribution was computed by expressing the area acquired by previously disadvantaged entrants as a percentage of the area originally available for redistribution in KwaZulu-Natal. Trends in the rate of land redistribution are illustrated in Figure 2. Transfers to previously disadvantaged South Africans accounted for 177,895 hectares representing about 8.2 per cent of total farmland transferred, or 3.4 per cent of the total area originally available for redistribution. The rate of farmland redistribution declined to its lowest level of 0.33 per cent in 2000 following a moratorium on the SLAG programme early that year. The rate of redistribution improved to 0.52 per cent in 2001 after the moratorium was lifted and, following the launch of LRAD, doubled to 1.06 per cent in 2002.

Table 1: Estimated annual rates of land redistribution in KwaZulu-Natal, 1997-2002

Study year	1997	1998	1999	2000	2001	2002
1 Area of farmland originally available for redistribution (Ha)	5,308,559	5,308,559	5,308,559	5,308,559	5,308,559	5,308,559
2 Area of land transacted (Ha)	72,995	603,522	306,433	300,799	267,233	316,840
3 Area of farmland acquired by disadvantaged people (Ha)	22,934	17,772	36,109	17,345	27,324	56,411
4 Rate of land redistribution (%) ([3/1] * 100)	0.43	0.34	0.68	0.33	0.52	1.06
Cumulative rate of land redistribution (%)	0.43	0.77	1.45	1.78	2.30	3.36

[4] Grant only refers to land transfers partially or entirely financed with government SLAG or LRAD grants but without additional loan finance.

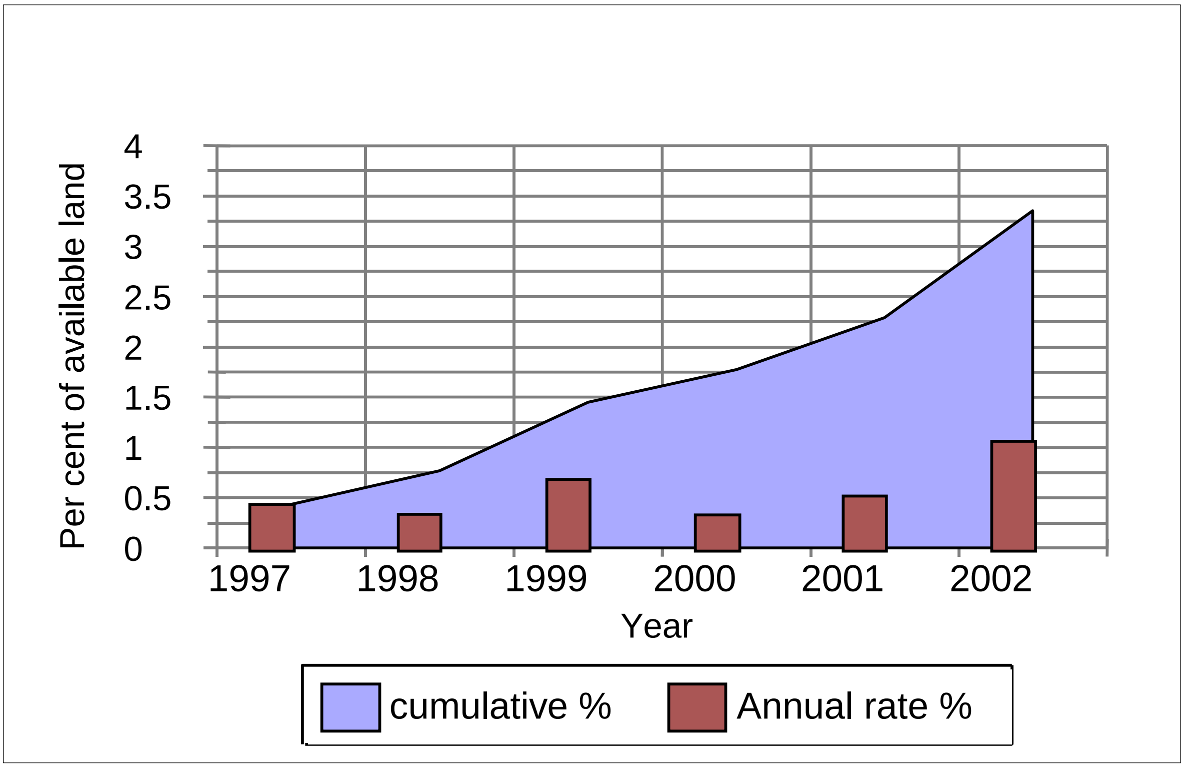

Figure 2: Estimated annual and cumulative rates of farmland redistribution to previously disadvantaged owners in KwaZulu-Natal, 1997-2002

Despite this recent improvement, the rate of land redistribution is still well short of the government's target. Possible reasons for this are discussed in section 5. To reach a level of 30 per cent over 15 years would require an average transfer of about 106,000 hectares per annum in KwaZulu-Natal, about twice the amount transferred during 2002.

4 CHARACTERISTICS OF FARMLAND ACQUIRED BY ADVANTAGED AND DISADVANTAGED OWNERS

Table 2 compares the mean area of all farms, and the mean price of all purchased farms, acquired by previously advantaged and disadvantaged people in KwaZulu-Natal over the period 1997-2002. The table also compares the weighted price of land purchased by members of these groups. All prices are expressed in real terms using 2000 as the base year. The t-values test for differences in the mean characteristics of farms acquired by the advantaged and disadvantaged groups.

During 2002, and for the first time during the 1997-2002 study period, the mean area of farms acquired by the disadvantaged group was not significantly lower than for the advantaged group. Despite this increase in relative farm size, the mean price paid for farms by the previously disadvantaged group remained significantly lower than for the advantaged group. To the extent that the weighted price of land per hectare reflects land quality, the average quality of farmland bought by disadvantaged entrants during 2002 was not only lower than that purchased by the advantaged group, but has also declined relative to the mean quality of farmland purchased by this group between 1997-2001. The moratorium on SLAG during 2000 and 2001 appears to have restricted purchases by groups of disadvantaged people, raising the weighted price paid for land during these two years. After the moratorium was lifted, a backlog of SLAG-assisted purchases was processed during 2002, lowering the weighted price of land purchased by disadvantaged buyers that year. Higher weighted prices paid for land by the disadvantaged group during earlier years of the study may be the result of interest rate subsidies offered by private sugar millers to emerging farmers in 1997 and 1998 to buy high quality sugar-cane farms (Mashatola and Darroch, 2003). Relationships between mode of purchase and characteristics of land acquired by disadvantaged groups are discussed in section 5.

Table 2: Characteristics of farmland acquired by previously advantaged and disadvantaged owners in KwaZulu-Natal, 1997-2002 (at constant 2000 prices)

Farm characteristic	Year	Advantaged	Disadvantaged	t-value
Mean farm area (Ha) for all farms transacted	1997	365	125	3.6***
	1998	1,007	100	2.4**
	1999	287	114	6.7***
	2000	268	109	5.7***
	2001	294	179	3.8***
	2002	329	337	0.2
Mean real price (R) for all farms purchased	1997	1,193,882	532,775	1.4
	1998	754,373	318,086	4.4**
	1999	879,400	312,339	3.4***
	2000	638,808	355,668	3.6***
	2001	652,318	382,006	3.3***
	2002	754,749	518,451	2.8**
Weighted real land price (R/Ha) for all farms purchased	1997	2,554	2,796	
	1998	1,442	1,791	
	1999	2,761	1,678	
	2000	2,337	2,326	
	2001	1,993	1,660	
	2002	2,006	1,159	

Note: *** and ** denote statistical significance at the 1 and 5 per cent level of probability respectively.

5 MODES OF LAND REDISTRIBUTION

Modes of land redistribution identified in the 1997-2001 census surveys were government SLAG-assisted land purchases, private purchases (mortgage loan and private cash), and non-market transfers (bequests, and donations). In addition to these modes, the 2002 census survey identified land transfers financed using a government LRAD grant combined with own equity and a mortgage loan. Table 3 compares characteristics of farmland acquired by disadvantaged owners for each mode of land redistribution during 1997-2002. Figures 3, 4, 5 and 6 illustrate how these characteristics have varied within the study period. All financial values in Table 3 and Figures 5 and 6 are expressed in constant 2000 prices.

Table 3: Characteristics of farmland acquired by disadvantaged owners by mode of redistribution in KwaZulu-Natal, 1997-2002 (at constant 2000 prices)

Farm characteristic	Grant only	Loan plus LRAD grant	Private mortgage loan	Private cash	Private non-market	Total
Number of transactions	135	14	200	360	459	1,168
Total area of land (Ha)	73,745	3,404	38,587	44,542	17,617	177,895
Total market value of land (R million)	51.92	14.22	144.87	63.3		274.31
Mean area of farms (Ha)	546	243	193	124	38	
Weighted farmland price (R/Ha)	734	4,176	3,835	1,427		

Although farmland purchased only with government grants transferred over 41 per cent of all the land redistributed, these transfers involved land of poor agricultural quality[5] relative to private market transactions. This can be attributed to the high proportion of group purchases under the SLAG programme where the beneficiaries were primarily interested in maximizing land area for residential and grazing purposes. Since August 2001, aspiring farmers have been encouraged to purchase land by combining an LRAD grant with equity and mortgage loan finance. This mode of redistribution accounted for six per cent of the total area acquired by previously disadvantaged owners in 2002. Fourteen farms were acquired using combined grant and loan finance, transferring 3,404 hectares with a market value of about R14.22 million to the previously disadvantaged. At a weighted price of R4,176 per hectare, the quality of farmland redistributed via this mode was significantly higher than that of other government-assisted transfers and cash purchases, and is similar in quality to land purchased privately with mortgage loans. These public-private partnerships in financing land have been further enhanced by the recent recapitalisation of the Land Reform Empowerment Facility (LREF). The LREF improves the risk profile of its target beneficiaries by wholesaling unsubsidised loans with a deferred repayment schedule to commercial banks that lend, on similar terms, to clients financing land purchases or equity-sharing projects.

Ithala Finance & Investment Corporation (Ithala) financed 11 of these 14 transactions and three were financed by the Land Bank. None were financed by private commercial banks. One of the biggest frustrations voiced by Ithala is that grant funds are not readily accessible, resulting in delays that often cause potential deals to collapse as sellers find other buyers who are not reliant on grants. Apart from wasting Ithala's resources (assessing business plans and preparing grant applications for prospective clients) the lack of funds is more apparent than real. This anomaly has arisen because the Land Bank, which enjoys the privilege of being the only bank permitted to approve LRAD applications, has not processed many of the deals for which it has approved grants. In financial year 2001/02, the Land Bank received R50 million from the Department of Land Affairs (DLA) to award LRAD grants contingent upon loan funding. In the same period, the Land Bank approved 152 LRAD applications. Of these approvals, only 14 applicants had received their loans and grants by March 2002 (DLA, 2002). Consequently, grant funding allocated to the remaining 138 approvals was unavailable to other banks and remained unspent at the end of the financial year – a situation that will persist if these approved deals eventually collapse. Also, historical under-spending by the DLA is an ongoing problem. According to Lahiff (2001), the national real level of funding allocated to land reform grants by the Treasury declined by 23 per cent between 1998 and 2001, owing to persistent under-spending of provincial budgets.

[5] An average price of R734/ha indicates that the land is not fit for ploughing.

The number of land redistribution transactions has remained consistently between 150 and 200 transactions per year throughout the study period, except for 1999 when over 300 redistributive transactions were recorded. Figure 3, however, shows distinct trends in the relative proportions of land transferred by each mode of land redistribution between 1997 and 2002. The number and relative proportion of private non-market and mortgage loan transactions, which respectively account for almost 40 and 18 per cent of all transactions, has decreased since 1999 and respectively accounted for only 15 and nine per cent of transactions during 2002. The decline in the number of transactions financed with mortgage loans since 1999 coincides with the decline in the number of subsidised mortgage loans made to medium-scale sugar-cane growers. By contrast, the moratorium on the SLAG programme reduced the number of government-assisted transfers during 2000 and 2001. The relative proportion of government-assisted transfers increased during 2002, including 14 transactions financed with a combination of LRAD grants, private equity and mortgage finance. The number of private cash transactions per year has remained relatively steady throughout the study period (ranging between 50 and 70).

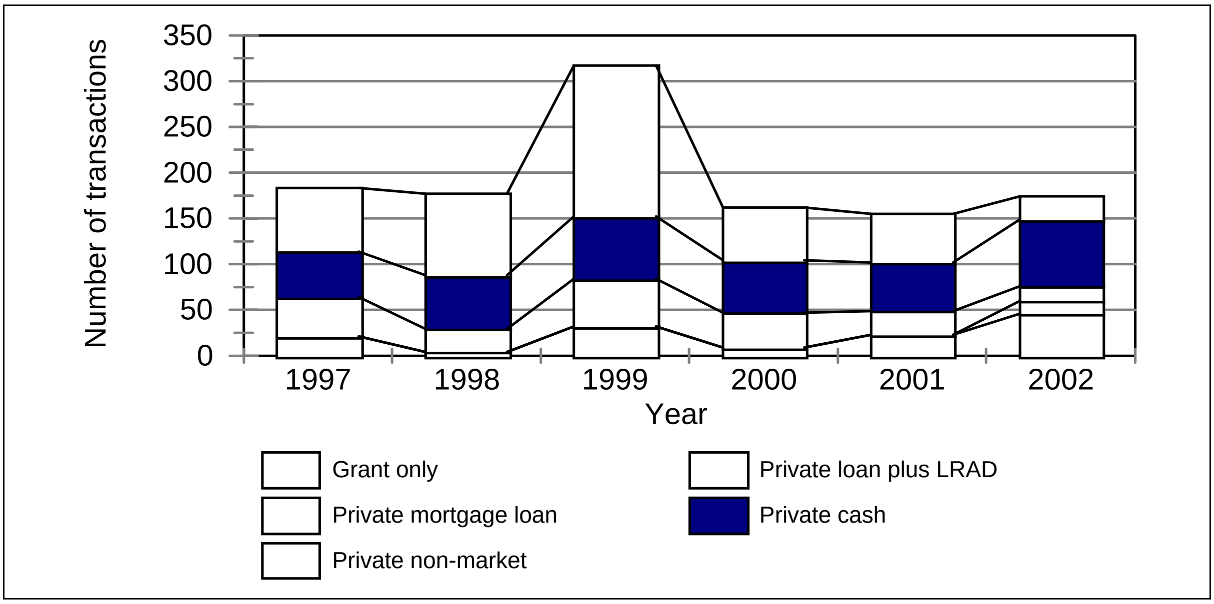

Figure 3: Annual farmland transactions by mode of redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2002

Although non-market transactions are the most numerous, the total area of farmland transferred via these transactions is small relative to market and government-assisted purchases. Over the period 1997–2002, the total area of farmland redistributed by private purchases (83,129 hectares made up of 44,542 hectares via cash purchase and 38,587 hectares via mortgage loans) exceeded that redistributed via government grants (73,745 hectares). Figure 4 shows that the area purchased only with government grants increased steadily after the moratorium on SLAG grants was lifted, peaking in 2002. During 2002, government-assisted transfers redistributed more land than private market purchases (32,028 hectares versus 22,863 hectares). It appears that LRAD is largely responsible for the improved rate of land redistribution observed in KwaZulu-Natal during 2002. Possible reasons for this improvement include decentralization of the powers for implementation and project approval. Provincial governments have now replaced the DLA as the key approval and implementing agencies (MALA, 2001:8). This has shortened the decision chain reducing lengthy delays that hampered the SLAG programme.

The number of transactions financed with mortgage loans peaked in 1999, but dipped sharply in 2001 when no subsidised mortgage loans were offered to medium-scale sugar-cane growers. Historically, the purchase of medium-scale cane farms accounted for a relatively large proportion of land transfers financed with private mortgage loans. The interest rate subsidies provided by sugar millers and administered by Ithala are designed to help new landowners avoid debt-induced cash flow problems in times of high inflation (Mashatola and Darroch, 2003).

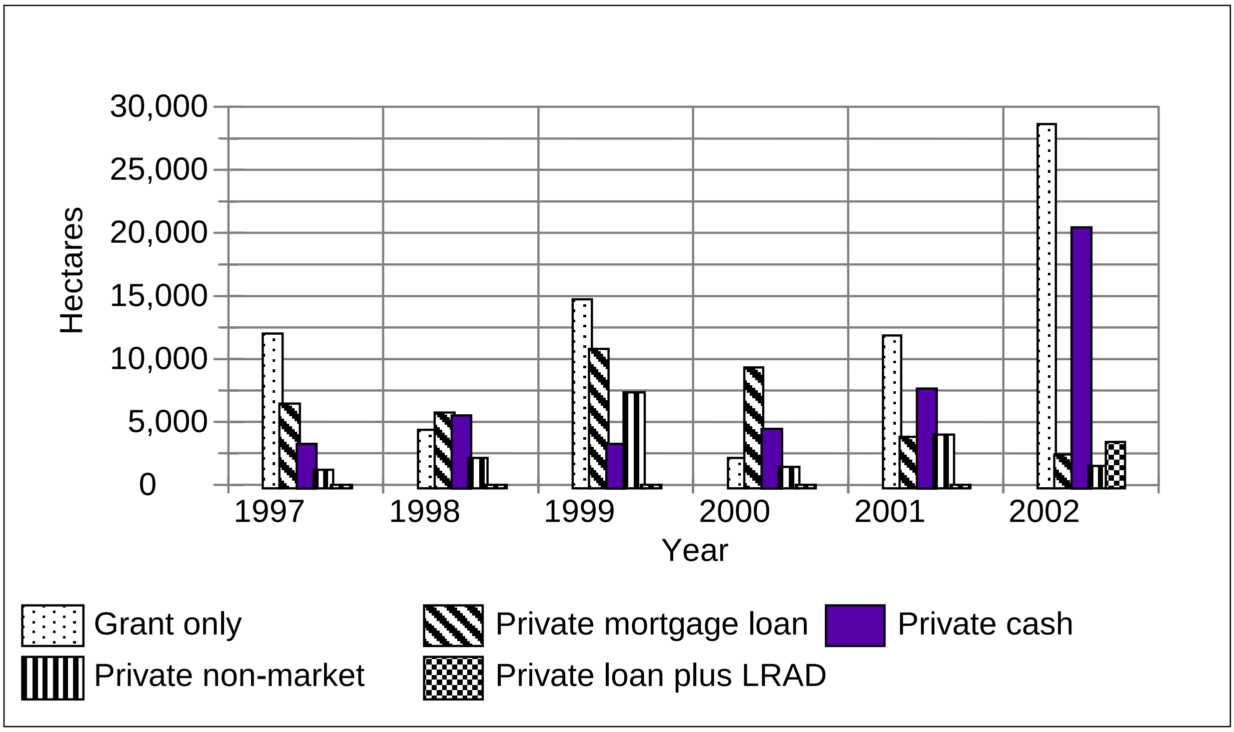

Figure 4: Annual area of land by mode of redistribution to previously disadvantaged owners in KwaZulu-Natal, 1997-2002

On average, beneficiaries of government grants purchased the largest farms (mean of 546 hectares), while bequests and donations (private, non-market) transferred the smallest farms (mean of 38 hectares) to previously disadvantaged South Africans. Within the set of private purchases, the census results during 1997-2002 show that the mean size of farms financed with own cash was small relative to those financed with mortgage loans (119 versus 189 hectares). These observations are consistent with Nieuwoudt and Vink's (1995) argument that buyers with limited equity cannot finance large farms using conventional mortgage loans due to cash flow problems. Instead they pay cash for relatively cheaper farms. The 2002 census survey shows that the size of farms financed with mortgage loans and those financed with a combination of LRAD and mortgage loans were, on average, smaller than those financed with own cash (152 and 243 hectares respectively versus 280 hectares). However, the farms purchased with cash were of much lower quality than those financed with mortgage loans (R1,153/ha versus R4,198/ha).

Figure 5 shows the contrast in land wealth transferred by the different modes of redistribution in KwaZulu-Natal during 1997-2002. From 1997 to 2001, private mortgage loans redistributed more land wealth than other market transactions. In 2002, mortgage loans (including LRAD-leveraged mortgage loans) continued to redistribute the greatest wealth compared to other market transactions. However, the proportion of land wealth redistributed by government grant-financed transactions increased from an average of 17 per cent during 1997-2001 to 24 per cent in 2002, excluding transactions financed using LRAD leveraged mortgage loans. This reflects the large increase in the number and area of government grant-financed transactions in 2002.

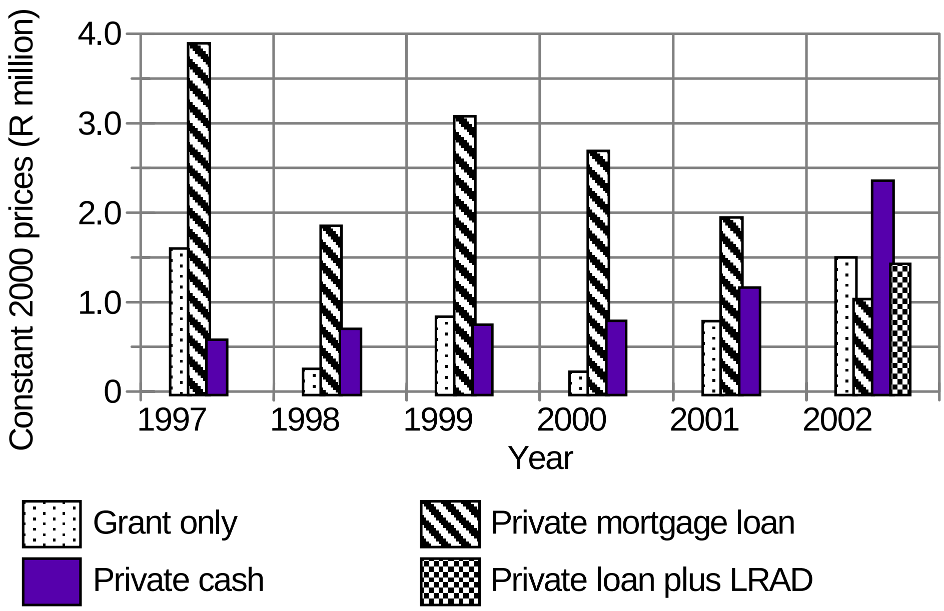

Figure 5: Market value of farmland by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2002

Despite considerable recent growth in the wealth transferred through government-assisted land purchases, land financed only with government grants is still of relatively poor agricultural quality. Figure 6 shows that in all years of the study the weighted price of farmland purchased with government grants is substantially lower than for other modes of transfer, and decreased in 2002 after the moratorium on SLAG grants was lifted. In the future, as group purchases financed with SLAG are superseded by individual purchases co-financed with LRAD grants and private mortgage loans, it is expected that beneficiaries of government grants will acquire farms of relatively better agricultural quality. In 2002, the weighted price of land co-financed with LRAD grants and mortgage loans was virtually the same as that financed with own equity and mortgage loans. As was intended, LRAD grants were used by some farmers to supplement their own equity contributions, enabling then to access the loan finance required to purchase quality farmland.

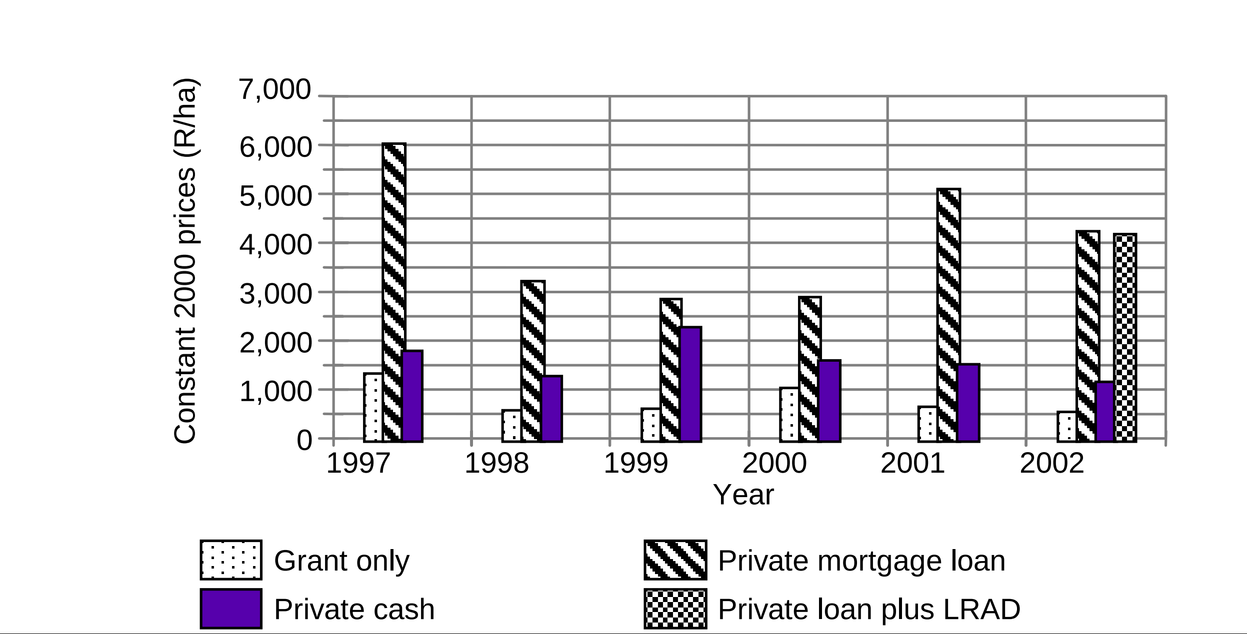

Figure 6: Weighted farmland price (R/ha) by mode of land redistribution to previously disadvantaged owners in KwaZulu-Natal, 1997-2002

6 LAND REDISTRUBUTION BY GENDER

Table 4 compares land transactions according to gender and mode of land purchase. It shows that women (as sole owners or married co-owners) are well represented in the overall number of transactions involving previously disadvantaged South Africans, particularly those involving bequests. Women accounted for 478 out of 1,159 transactions involving disadvantaged owners (41 per cent) compared to 412 (36 per cent) for men only and 269 (23 per cent) for corporate[6] owners. Of the market transactions, women were well represented in cash-financed transactions, but were under-represented in transactions financed with mortgage loans. In 2002, however, women were involved in 50 per cent of all transactions co-financed with LRAD grants and mortgage loans. This may explain why the quality of land acquired by women in 2002 was higher than in previous census surveys (R4,381/ ha versus R3,040/ha). This also suggests that LRAD targeted women much more effectively than did the SLAG programme and could improve womens' access to mortgage loans in the future.

Table 4: Distribution of land transactions by gender in KwaZulu-Natal, 1997-2002

	Male Owners	Female owners or married co-owners	Corporate owners
Cases	412	478	269
Grant only (%)	0	0	100
Private cash (%)	43	36	21
Private bond (%)	49	29	22
Private loan plus LRAD grant (%)	43	50	7
Private non-market (%)	32	65	3
All transactions (%)	36	41	23

[6] A corporate owner is a juristic entity representing the interests of one or more people.

Table 5 shows that the total area of farmland acquired solely by men during 1997-2002 was higher than that acquired by women as sole owners or married co-owners (35,356 versus 25,615 hectares). Farms acquired by women were also, on average, smaller (53 hectares) than those acquired by their male counterparts (86 hectares) largely because the areas inherited by women tended to be relatively small. Figure 7 shows that with the exception of 1997 and 1999, men purchased almost twice the total area purchased by women. Overall, corporate entrants acquired more land than males and females combined over the six-year study period. In 2002, corporate entities accounted for 85 per cent of the farmland transferred to previously disadvantaged South Africans in KwaZulu-Natal. The gender representation of these corporate entities is not known but it seems likely that they favour men. This is certainly true of the community trusts and communal property associations (CPAs) established by government to represent the interests of beneficiaries that pooled their SLAG grants to purchase land collectively (DLA, 2001). That these groups were primarily interested in maximizing land area for residential and grazing purposes is evidenced by the poor quality of land purchased by corporate entities (R1,223/ha) compared to that purchased by men only (R2,534/ha) and women as married owners or co-owners (R3,049/ha).

Table 5: Farmland characteristics by gender in KwaZulu-Natal, 1997-2002 (constant 2000 prices)

Farm characteristics	Male Owners	Female owners or married co-owners	Corporate Owners
Mean area of farms (Ha)	86 n = 412	53 n = 478	434 n = 269
Total area of land (Ha)	35,356 n = 412	25,615 n = 478	116,696 n = 269
Total market value of purchased land (R million)	80.00 n =283	55.,91 n = 215	137.73 n =255
Weighted land price (R/ Ha)	2,534 n = 281	3,049 n = 213	1,223 n =254

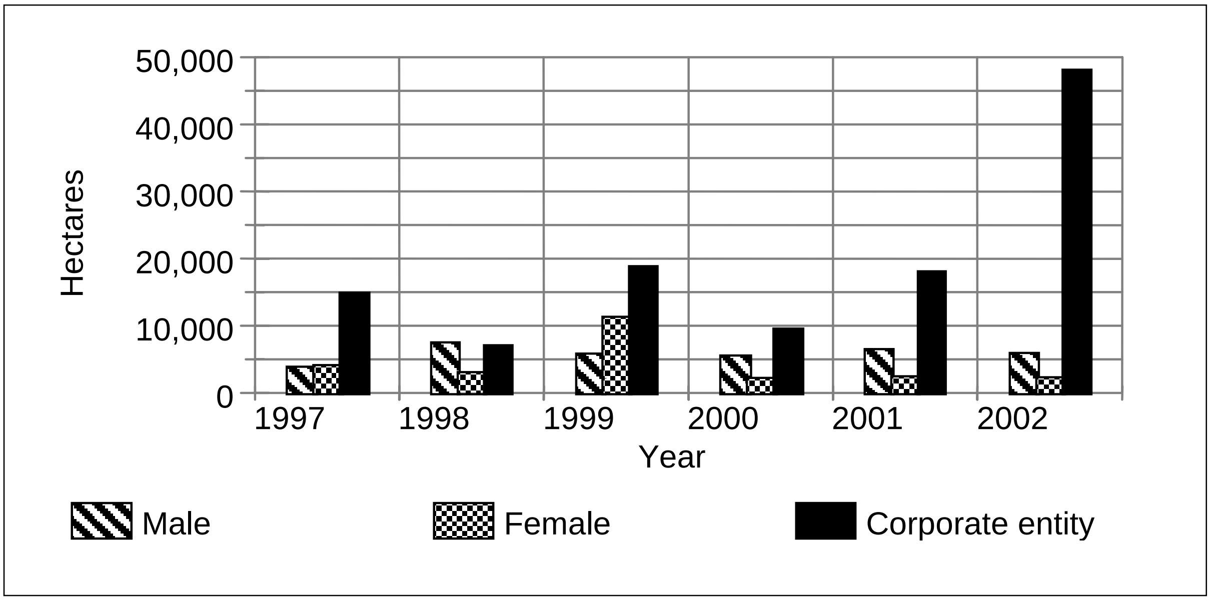

Figure 7: Total area of farmland transacted by category of disadvantaged owners in KwaZulu-Natal, 1997-2002

No grant funded equity-sharing schemes were known to be operating in the Province during the study period (Lyne, 2003). Farmworker equity-sharing schemes (which have the advantage of redistributing wealth and income streams generated by assets other than just land) could help correct the gender imbalance as women are usually well represented amongst farmworkers. On six of nine equity-sharing projects analysed by Knight and Lyne (2002) in the Western Cape during 2001, more than 50 per cent of the worker-shareholders were women. Despite the success of these projects in other parts of the country such schemes have not yet taken hold in KwaZulu-Natal.

7 CONCLUSIONS AND POLICY RECOMMENDATIONS

The annual census surveys of farmland Transfer Deeds show that a total of 177,895 hectares or 3.4 per cent of the total area originally available for redistribution was transferred to previously disadvantaged people in KwaZulu-Natal during 1997-2002. This implies an annual transfer of about 0.56 per cent, which is well short of the government's target of two per cent per annum. The rate of redistribution rose from 0.5 per cent in 2001 to one per cent in 2002 after the launch of LRAD, However, this is again partially attributable to a backlog of SLAG-assisted transfers being processed during 2002 after a two-year moratorium.

The study also shows that during 2002 transactions financed only with government grants redistributed more land than private purchases (28,624 hectares versus 22,863 hectares). Land wealth transferred to previously disadvantaged households through these grant transactions increased from 17 per cent during 1997-2001 to about 24 per cent in 2002. Fourteen transactions were financed with a combination of LRAD-grants and mortgage finance in 2002. The average area and quality of farms transferred using this mode of redistribution was greater than that financed privately. Early indications are that LRAD has assisted in engaging financial institutions in co-financing previously disadvantaged entrants to purchase their own, high quality farms. These public-private partnerships in financing land have been further enhanced by the recent recapitalisation of the LREF.

Lyne and Darroch (2003) argue that the *Subdivision Act*, *Act 70 of 1970*, constrains the subdivision of farms into smaller parcels of land, preventing many emerging farmers from making private purchases. Replacing the Subdivision Act with zoning regulations should increase the supply of smaller, more affordable properties for individual emergent farmers. The delay in repealing the Sub-division Act is attributed to the absence of zoning legislation regulating the conversion of farmland into residential or commercial use (Graham, 2000:19). Although grant transactions are exempt from the Act, costs associated with formal subdivision of agricultural land are prohibitively high. Moreover, the exemption applies only to government-assisted transfers and therefore, does nothing to improve market access for private buyers.

Considering gender issues, women as sole owners or married co-owners accounted for the largest share (41 per cent) of all transactions during 1997-2002, largely because bequests favour women. Also, women are well represented in transactions co-financed with LRAD grants and mortgage loans. This helps to explain why the quality of land purchased by women in 2002 was higher than that for previous census surveys. Nevertheless, previously disadvantaged women gained less land than their male counterparts (25,615 versus 35,356 hectares) and, after removing non-market transactions, they gained much less land wealth compared to their male counterparts (R56 million versus R80 million). There is also concern that women are under-represented in land transactions involving corporate buyers as these transactions accounted for 85 per cent of the area transferred in 2002.

It is encouraging that 50 per cent of the transactions co-financed with LRAD grants and mortgage loans in KwaZulu-Natal during 2002 involved female buyers as owners or married co-owners. This suggests that LRAD is more successful in engaging women and financial institutions in land redistribution than was the SLAG programme during 1997-2001. In addition, policies and programmes that encourage the establishment of farmworker equity sharing schemes in KwaZulu-Natal could help correct the gender imbalance as women are usually well represented amongst farmworkers.

One possible obstacle to land redistribution, voiced by Ithala, is the lack of access to grant funds. This situation has arisen because the Land Bank, the only bank permitted to approve LRAD applications, has not processed many of the deals for which it approved grants. This raises obvious questions about the delays in concluding deals, and the policy decision to deny other banks the privilege of approving LRAD grants for eligible clients whose loan applications have been assessed and found creditworthy.

Future research should ascertain whether improvements in the rate of land redistribution in KwaZulu-Natal during 2002 will be sustained in the future, and determine the extent to which these improvements could be attributed to the LRAD programme. It is also recommended that research should be conducted to compare the rate of land redistribution in KwaZulu-Natal with that achieved in other provinces of South Africa.

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BEST INSTITUTIONAL ARRANGEMENTS FOR FARMWORKER EQUITY-SHARE SCHEMES IN SOUTH AFRICA[7]

Sharon Knight, Michael Lyne[8] & Michael Roth[9]

ABSTRACT

Farmworker equity-share schemes were initiated 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 land reform projects intended to empower previously disadvantaged farmworkers was undertaken in the Western Cape during November 2001 to explore relationships between their institutional arrangements, worker empowerment, management quality and performance. Cluster analysis of variables measuring these four constructs revealed positive relationships between sound institutional arrangements, competent management, effective worker empowerment and good performance. 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).

1 INTRODUCTION

Farmworker equity-sharing schemes (FWES) were initiated by the private sector in South Africa during the early 1990's. FWES are privately owned farming operations that are generally restructured as companies. The original owner of the farm and the farmworkers become shareholders in the enterprise, sometimes with a third-party investor. In most cases, management exercises exclusive use rights to the farmland with farmworkers obtaining tradable voting and benefit (dividends and capital gains) rights in proportion to their financial investment. These institutional arrangements help to alleviate the free- and forced-rider problems that undermine cooperative forms of business organization (Cook & Iliopoulos, 2000: 337) and therefore encourage investment of money and effort by shareholders. In addition, company law entrenches transparent electoral and reporting processes, making directors accountable for their policy choices.

Equity-sharing arrangements were thought to be suited to farming enterprises where it would be better to change the ownership structure of the enterprise rather than dividing the land into smaller units; for example, where the enterprise is indivisible due to technical, managerial or natural resource constraints (McKenzie, 1993: 51). Mather and Adelzadeh (1997:11) describe

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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"*. In 1998 it was estimated that about 50 farmworker equity-share schemes had been initiated in South Africa, mostly in the Western Cape (Lyne *et al.*, 1998:2) and it is clear that this number has increased in recent years. For example, in December 2001 the Land Reform Credit Facility (LCRF) had approved loans for a further 11 FWES (LCRF, 2001: 3). Farmworker equity-share schemes are now spread across all nine of South Africa's provinces and involve wine, fruit, vegetables, olives, poultry, cut flowers, dairy and eco-tourism enterprises.

The aims of this study are two-fold; (a) to identify the institutional characteristics of successful farmworker equity-share schemes using relevant principles from the theory of New Institutional Economics (NIE) and data gathered from case studies of existing schemes, and (b) to propose a set of 'best institutional practices' that is likely to promote the success of these and futures projects, and so enhance their contribution to land reform in South Africa. Data relating to institutional arrangements and management quality, worker empowerment and financial performance were collected from case studies of nine schemes in the Western Cape and were analysed using cluster analysis. This technique was performed on variables to test for positive relationships hypothesized between indicators of project performance and sound institutional arrangements. For example, it is hypothesized that a scheme's credit-worthiness is positively related to a shareholder agreement that protects against a sudden loss of managerial expertise.

Section 2 of this paper motivates the importance of the study and section 3 considers the features of a successful equity-share scheme and of the institutions expected to foster its success. Section 4 describes the selection of case studies, information gathered, and the empirical technique used to analyse this data. Results of the empirical analysis are presented in section 5, and section 6 concludes the paper with a summary of best institutional practices.

2 RATIONALE FOR THE STUDY

Equity-sharing schemes offer an institutional environment that creates an incentive to invest in enterprises where resources such as land are co-owned. Co-ownership will continue to pose a challenge in the transition of South Africa's inequitable farming sector for three main reasons:

First**,** many of the group settlement schemes that were created under the government's settlement/land acquisition grant (SLAG) programme have succumbed to weak institutions. The Department of Land Affairs (DLA) 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 & Nieuwoudt, 1990) and lack of access to affordable credit (Kirsten *et al.*, 1996, Fenwick & 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 Land Redistribution of Agricultural Development (LRAD) grants has been strongly rejected by these communities who perceive that all of their members should benefit from the land (Greene & Lyne, 2001).

Third**,** large commercial farms are expected to remain a predominant feature in South Africa (owing largely to the reality of lumpy resources and fixed transaction and sub-division 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).

Land redistribution has been slow in South Africa. In the province of KwaZulu-Natal where farmland transactions have been monitored since 1997, less than 0.5 per cent of the commercial farmland owned by whites has transferred to historically disadvantaged owners each year (Lyne & Darroch, 2001). This slow progress 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 (Graham, 2000: 19; 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 cash returns to land (Nieuwoudt & Vink, 1995).

Faced with these problems, most of the disadvantaged people who have managed to acquire farmland have had to pool their meagre resources and purchase farms collectively. During 1997-2000, disadvantaged owners acquired 94,160 hectares of the commercial farmland in KwaZulu-Natal. Of this amount, 12.9 per cent was acquired through private non-market transfers (mainly donations and bequests), 35.3 per cent was redistributed through government-assisted (SLAG) purchases, and 51.8 per cent was redistributed through private land market transactions (cash and mortgage loans). Without exception, government-assisted transactions (33,263 ha) involved the establishment of a common property association (CPA) or community land trust to represent the interests of multiple owners. Corporate entities also accounted for 35 per cent (17,181ha) of the farmland purchased privately by previously disadvantaged people. In short, more than half the farmland redistributed in KwaZulu-Natal is co-owned (Lyne & Darroch, 2001).

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. The following section considers the institutional arrangements that a successful farmworker equity-share scheme should apply to avoid these problems.

3 A CONCEPTUAL MODEL OF INSTITUTIONAL ARRANGEMENTS FOR A SUCCESSFUL EQUITY-SHARE SCHEME

Knight and Lyne (2002) postulated that a successful FWES should achieve a number of goals. These include 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 & Ngqangweni, 1996: 4; Eckert *et al*., 1996); and provision for the transfer of both ownership and control 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 (LCRF, 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 & Iliopoulos, 1999 and 2000; Porter & Scully, 1987) and investor-owned firms (Hendrikse & 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.

It is thus 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 participating in a FWES usually insist that only employees may be shareholders.

Egalitarian voting and benefits rights result in each member of the organization receiving similar voting and benefit rights regardless of individual investment or contribution. A member who invests more capital in the organisation does not receive proportionally more in terms of his or her rights. Investor owned firms (IOFs) like private or public companies, however, operate on a system of ‘fair’ benefit and voting rights whereby shareholders receive proportionally more rights as their level of investment in the company increases.

The horizon problem results from residual claims that do not extend as far as the economic life of the underlying asset (Porter & 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 & Meckling, 1976) discourages members of a cooperative from investing as much as they would do as shareholders in an 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 & 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 & Scully, 1987).

Hendrikse and Veerman (1999) 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 numerous 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 arrangements exist 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 1 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 program 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.

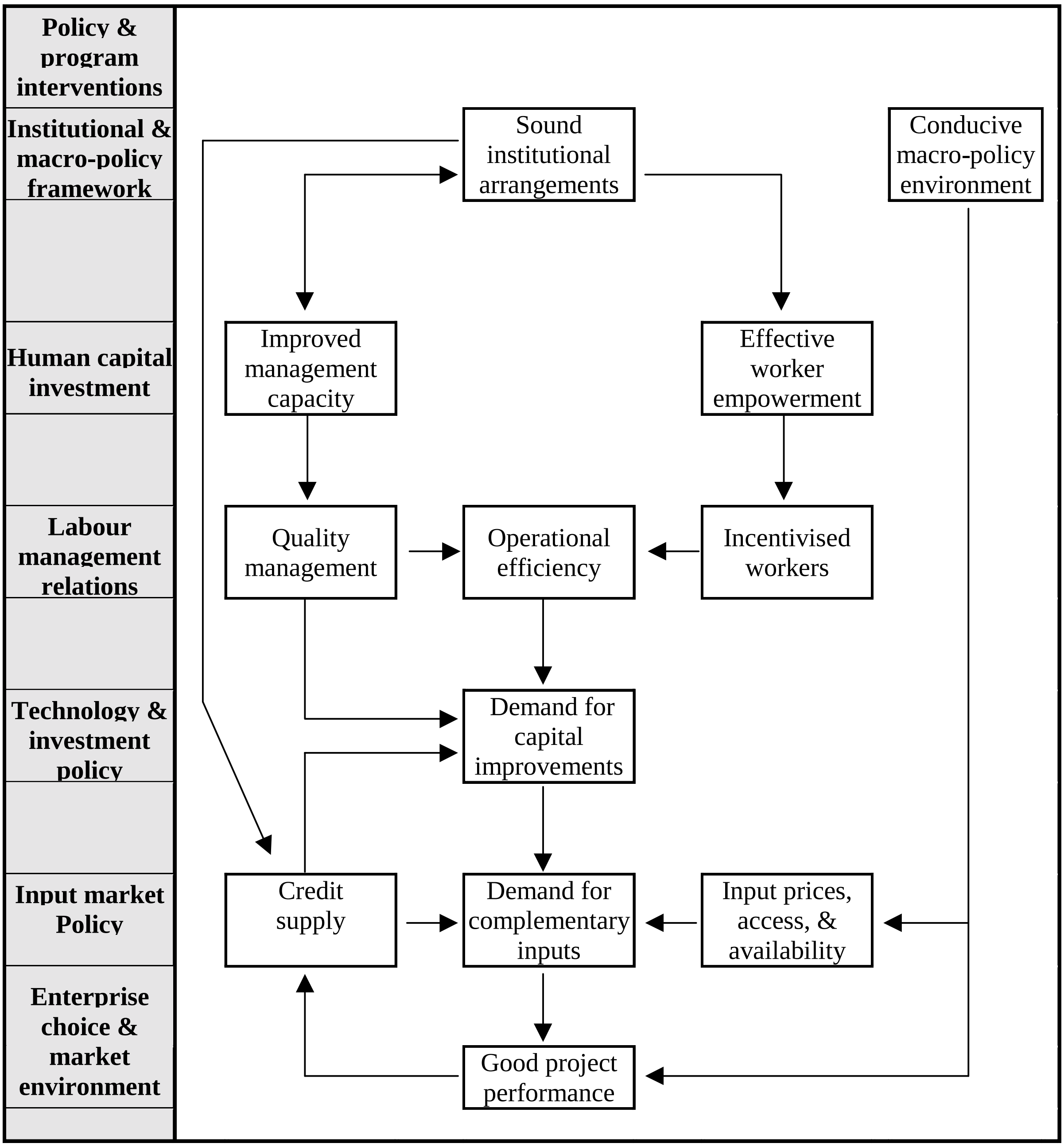

Figure 1: Conceptual model of factors contributing to the performance of a farm-worker equity-share scheme

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 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. The next section describes the selection of case studies, information gathered, and the empirical technique used to analyse this data.

4 EMPIRICAL ANALYSIS

4.1 Data collection

In November 2001 a detailed study of nine land reform projects intended to empower previously disadvantaged farmworkers was conducted to explore relationships between their institutional arrangements, financial performance, management and worker empowerment through skills training, gender sensitivity and participation in decision-making. Established projects producing deciduous fruit, wine, citrus and vegetables were selected as case studies in the Lutzville, Elgin, Piketberg, Stellenbosch and Paarl regions of the Western Cape. The enterprises were chosen to ensure variation across a number of known indicators including; use of external finance, size and gender composition of the beneficiary group, proportion of equity owned by farmworkers, and certain institutional arrangements such as the choice of legal entities and business organisation. The sample was designed to control, where possible, for non-institutional determinants of financial performance such as enterprise type and geographic region. 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 (DLA), and representatives of 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 to identify 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. The questionnaires sometimes required respondents to rate their perception of a particular issue (e.g. management quality) 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.

4.2 Variables recorded in the case studies

Table 1 defines the set of observable variables chosen to represent the project-level constructs presented in Figure 1. 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.

Table 1: Indicator variables observed in the case studies

Variable *	Definition of variables	Empirical construct
dividend	Has the project 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 project 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 project?	
collateral	Has a commercial bank accepted the project's assets as collateral for a 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?	
grpsize	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.	
oratorium	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 project 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 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.

4.3 Empirical model

The theoretical model postulated in Figure 1 was collapsed into a more tractable empirical model (Figure 2) because its constructs were not all uniquely observable. The empirical model in Figure 2 argues that the institutional arrangements within a FWES have both a direct and an indirect effect on project 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 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.

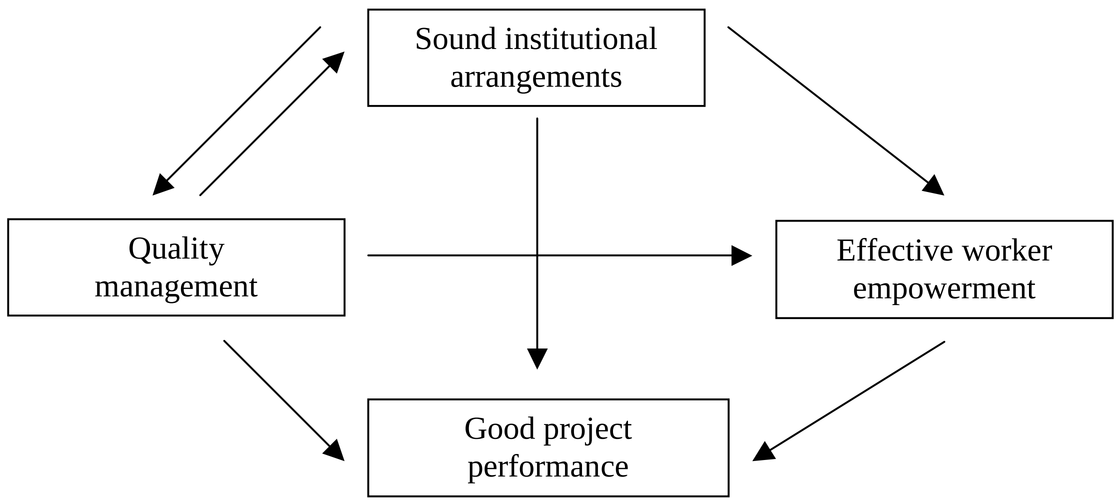

Figure 2: Empirical constructs of a farmworker equity-share scheme

Ten of the variables presented in Table 1 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 equity or assets. The variables *pvtfin* and *collateral* reflect the credit-worthiness 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; 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.

4.4 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 & 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 1) 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 1 and empirical model in Figure 2 imply that the 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.**

5 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 2 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 3) according to eight indicators of project performance in Table 1 plus three additional indicators of social and 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 containing no 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 four natural groupings. Since variables within each of these natural groupings are 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 3) to highlight best practices.

Table 2: 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	

Table 3: Ranking of case studies according to performance and empowerment indicators

	Enterprise Performance								Social Objectives			Attributes present	**Ranking**
Indicators	dividend	enterprise	empower	profits	housing	conditions	collateral	pvtfin	skillsg	skillsl	skillsf		
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 Annex 1.

5.1 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.

5.2 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.

5.3 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 3, 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).

5.4 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-sharing 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 & 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.

6 CONCLUSIONS

The cluster analysis undertaken in this study lends 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 land reform projects 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.

A successful farmworker equity-share scheme should therefore 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 should 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.

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Annex 1 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.

DESIGN AND IMPLEMENTATION OF AN EQUITY-SHARE SCHEME ON SHERWOOD FARM IN THE MIDLANDS OF KWAZULU-NATAL

Peter Greene[10]

1 INTRODUCTION

The University of KwaZulu-Natal and Lima Rural Development Foundation, in collaboration with the Land Tenure Center (University of Wisconsin-Madison) and Center for Economic and Social Research in Kyrgyzstan were awarded grant funding in 2001 to investigate equity-sharing arrangements as instruments of land reform in South Africa and Central Asia. The project forms part of USAID's Broadening Access and Strengthening Input Market Systems (BASIS) Collaborative Support Programme (CRSP). Central Asia and South Africa are undergoing political and economic transition, the former from state and collective ownership to private groups and individuals, and the latter to address the apartheid and colonial heritage of a racially biased and unequal land ownership.

The primary goal of this research is to identify institutional arrangements that encourage profitable and sustainable use of co-owned resources, rather than depriving poor land reform beneficiaries of current income, capital gains and new livelihood opportunities. An action orientated research program was proposed that:

- Used case studies to examine institutional and financial arrangements influencing the performance of equity-sharing schemes created by land reform programmes. These studies were to yield a set of 'best institutional practices' that could be replicated in new schemes (see previous paper by Knight, Lyne & Roth).

- Applied these best institutional practices in the design of a limited number of new experimental equity-sharing projects.

This paper relates to the second objective and outlines the processes followed and issues faced in the implementation of an experimental equity-sharing project at Sherwood farm in the province of KwaZulu-Natal, South Africa.

2 SHERWOOD FARM

2.1 Background

Sherwood is an extensive beef farm situated 70 kilometres northwest of Pietermaritzburg, some 15 Kilometres east of the Nottingham Road/Mount West exit from the N3 freeway. The farm falls within the Lions River Magisterial District administered by the uMngeni Local Municipality. The property is owned by members of the Martin and Coleby families via a private company (MB Morton Estates Pty Ltd), and the beef enterprise is operated as a partnership involving the same families (Figure 1). Dr Pat Coleby has managed the farm for the past 26 years.

[10] General Manager, Lima Rural Development Foundation, 200 Boom street, Pietermaritzburg, telephone: 033-3429043.

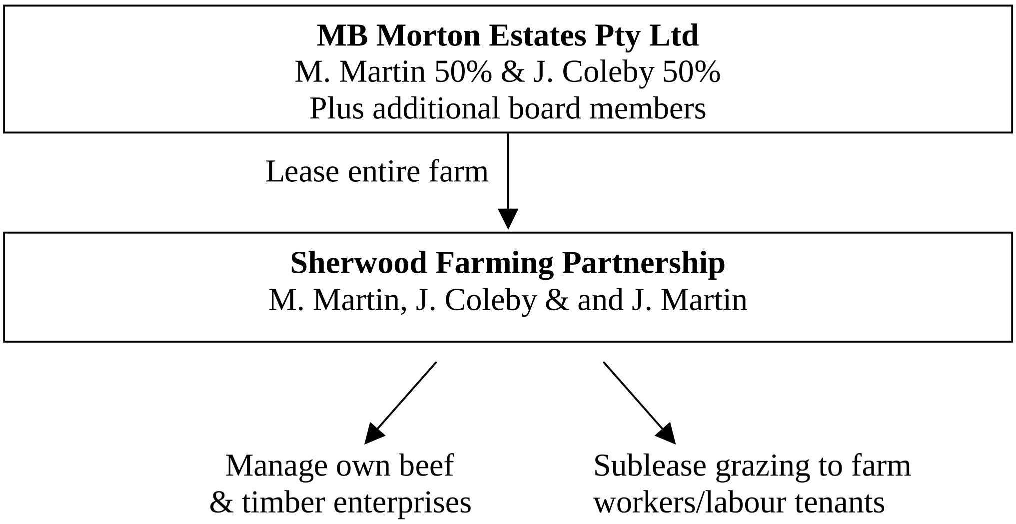

Figure 1: Existing organisational structure of Sherwood

In 1999, a committee representing farm workers and farm dwellers was established and an application was made to the Department of Land Affairs (DLA) for 'Labour Tenant' status in order to qualify for the DLA's Settlement/Land Acquisition grant (SLAG) of R16,000 per beneficiary household. The families were split into 63 beneficiary households for the purpose of SLAG. Negotiations took place with the Sherwood Farming Partnership and agreement was reached on the sale of Clipstone, 693 hectares in extent, to a Communal Property Association (eGamalethu CPA) representing the beneficiary households residing on Sherwood. The sale of Clipstone reduced the size of Sherwood to approximately 2,500 hectares.

The number of livestock owned by the labour tenant families far exceeds the carrying capacity of the land they have purchased. These new landowners will therefore have to divest livestock or access additional land to prevent severe degradation of their own grazing and/or poach grazing of neighbouring commercial farms. At the same time, Sherwood is capable of supporting a commercial beef herd some four times larger than the herd it currently supports. A combined farming operation would thus be beneficial to both parties, hence the proposed equity-share scheme.

The fundamental objectives of the proposed equity-sharing scheme are therefore to:

- Facilitate sustainable use of Clipstone by allowing labour tenants to exchange cattle for financial equity in a commercial beef operation on Sherwood

- Increase the incomes and wealth of shareholders through expert management of a larger commercial herd on Sherwood

- Improve future business opportunities for the labour tenants by creating a sound community-based organisation and transferring the skills needed to manage it

2.2 Proposed institutional and financial arrangements

As shown in Figure 2, the initial proposal was to conduct ranching operations through a private company. The usual company laws and practices would have applied; for example, voting and benefit rights commensurate with shareholding, external auditing and tradability of shares. However, a problem arose in that community members are inevitably poor, with low cash reserves. Intra-community trading would therefore not generate the liquidity required for a reliable market in shares held by shareholders. A reliable share market was considered essential for the success of the project as it would allow community members to liquidate shares to meet short-term cash needs (e.g. school fees) without having to sell a whole capital asset (e.g. a live animal).

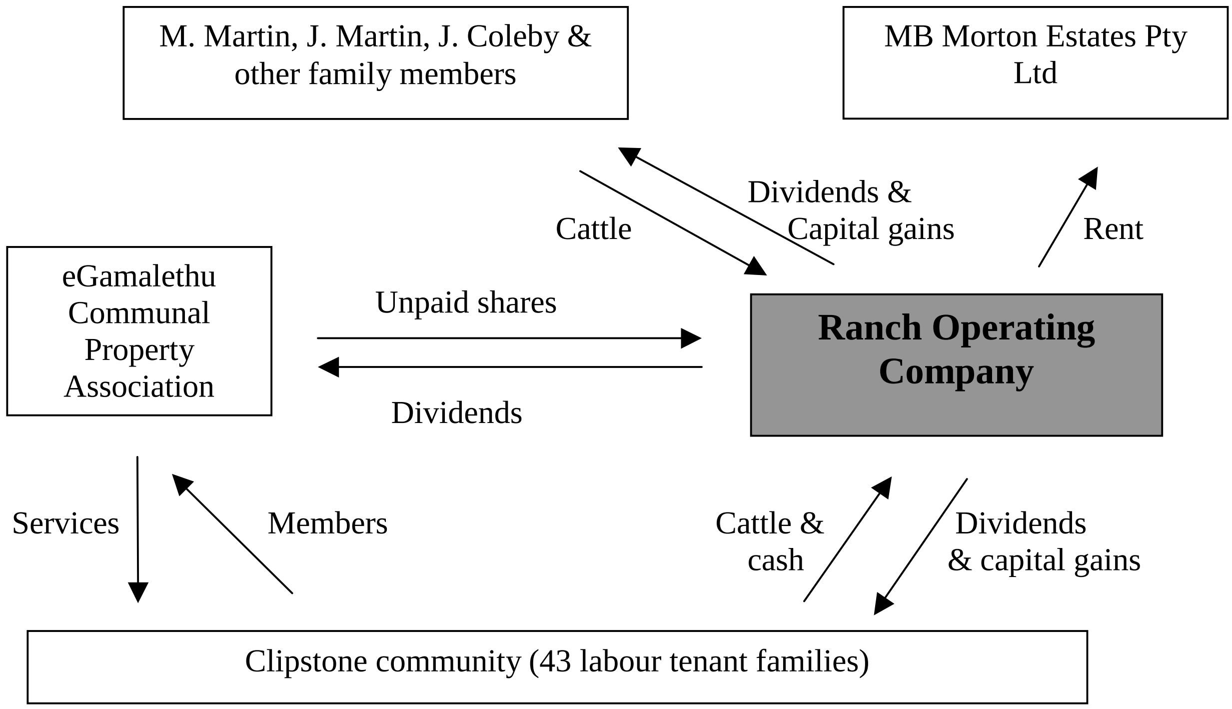

Figure 2: Initial proposal for organisational structure

Voluntary trading with the other shareholders (former partners) would also not provide sufficient liquidity, unless one or more of these investors accepts a put option, i.e. agrees to purchase shares when asked to do so. However, this approach places unacceptable demands for cash on the former partners, especially when a community shareholder dies and the deceased's entire contribution has to be liquidated. Another option would be for the operating company to provide the liquidity by buying back its own shares. However there is a common law prohibition in South Africa against private companies financing their own shares.

Despite these obstacles, prospective participants felt that the following over-arching principles of the original proposal remain non-negotiable for the successful operation of the venture:

- Closed trading of shares within the community
- Ready liquidation of a part of the investment
- Corporate democracy (one share, one vote) and accountability.

To give effect to these principles, the revised organisational structure illustrated in Figure 3 was adopted.

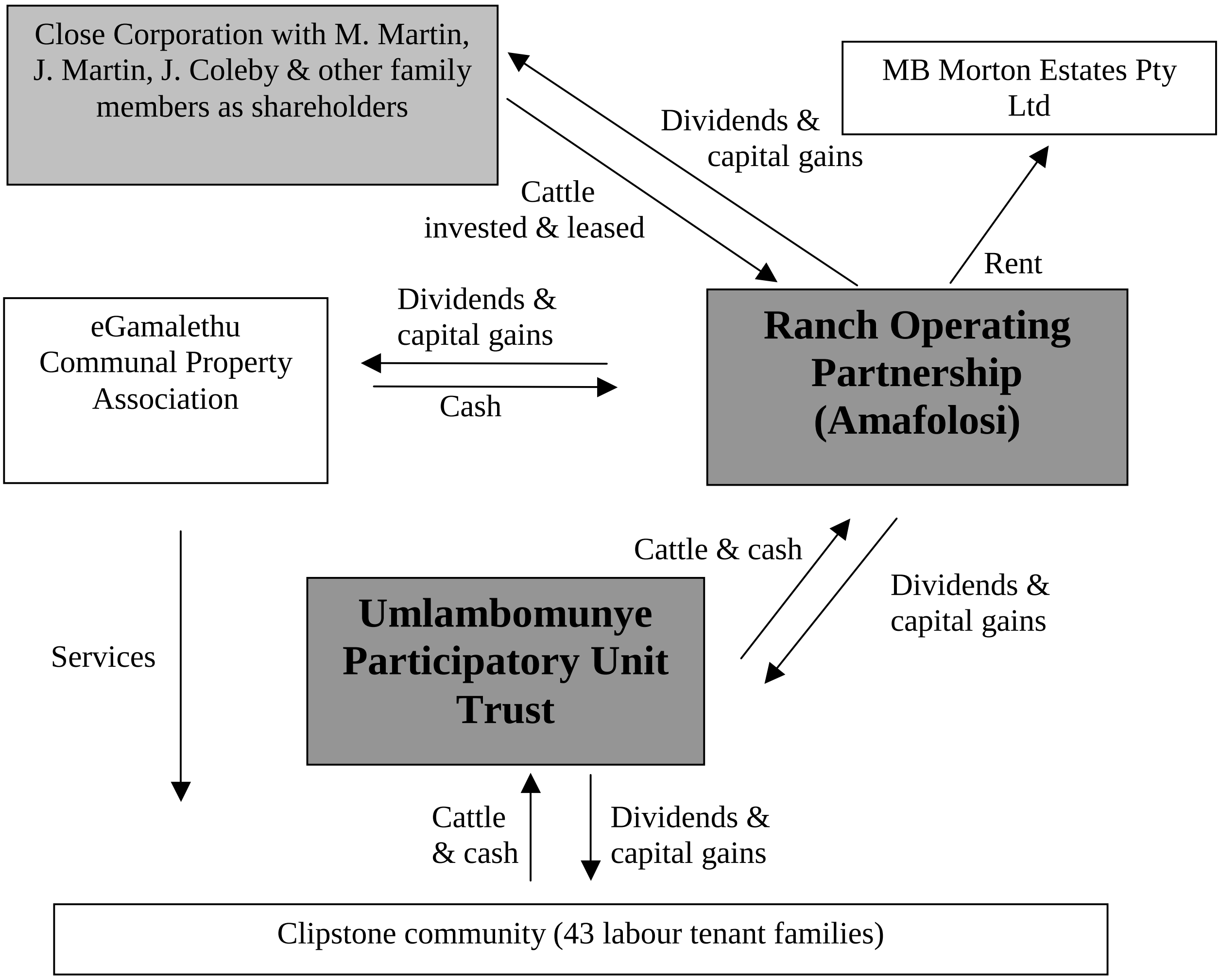

Figure 3: Final proposal for organisational structure

Community members will participate voluntarily through a community trust (The Umlambomunye Community Trust) cast in the form of a **participatory unit trust**. These individuals can acquire beneficial interests (units) in the trust by voluntarily exchanging cattle for units or by paying cash for units. The trust then invests the capital contributed by its beneficiaries in the operating partnership. Initially each unit will cost R100. An independent assessor will value cattle contributed by individuals. For example, an individual contributing an ox valued at R3000 will receive 30 units.

In addition, all 43 of the Partnership's employees will apply for Land Redistribution for Agricultural Development (LRAD) grants to purchase additional units. Financial projections assume that the grant will total R860,000 (R20,000/worker x 43 worker families). Of this amount, R270,794 will be contributed by community members to finance 48 per cent of the Partnership's initial equity. The balance of the grant (R589,206) will be loaned to the Partnership. The main purpose of these investments is to finance breeding livestock (see section 3.1) and to generate regular interest income for the Umlambomunye Community Trust and its unit holders. The loan will be redeemed over a period of fifteen years in equal annual payments of principal plus interest, with interest charged on the outstanding balance at a rate of three percent below prime.

Units held in a participatory unit trust can be traded. However, this trading is restricted to beneficiaries. Importantly, there is no prohibition on the purchase of units by the trust itself. The trust can, and will, act as the buyer of last resort in the absence of other willing buyers, paying a price not exceeding the latest audited value of the units. Likewise, in the event of death, the trust will liquidate the deceased's units and transfer the proceeds to his or her estate. To finance these purchases, the trust will have to liquidate corresponding levels of its investment in the partnership fund. The fund would shrink, and the trust would have proportionally less benefit from, and control over, the joint venture. Clearly, the audited value of units will vary with changes in the relative size of the partnership fund (i.e. its net worth or equity). Unit prices will increase if the partnership performs well over time, and beneficiaries will realise capital gains on selling their units.

The prospect of capital gains and future dividends generated by the ranching operation and (more predictable) interest payments should discourage beneficiaries from cashing in their units prematurely. The partnership agreement also safeguards against 'grant laundering' (i.e. cashing in and moving to another grant-funded scheme) by imposing restrictions on the withdrawal of significant equity capital by beneficiaries.

The Sherwood Farming Partnership will sell livestock up to a market value not exceeding its assessed tax loss to a Close Corporation (Sherwood CC) established to represent the interests of the Martin and Coleby families in the new (Amafolosi) partnership. The remaining cattle owned by Sherwood Farming Partnership will be leased to the Amafolosi Partnership using a traditional 'sheep lease' in which the lessee bears the risks of ownership and retains all offspring, while the lessor recovers animals similar to those originally transacted at the end of the lease period. The lessor will not earn rent but, as owner of the livestock, retains the tax benefits associated with 'standard values'[11].

Sherwood CC will invest its herd in the Amafolosi Partnership. This investment will afford the former partners a 52 per cent controlling interest in the operating partnership. Unlike the community trust, the CC will not be permitted to liquidate any portion of its share in the partnership fund during the first three years of operation. This temporary moratorium is intended to prevent sudden outflows of financial and managerial capital during the critical early years of the project's life. For the same reason, the 'sheep lease' will run for eight years, with an option for the lessee to renew the lease for a further seven years. The Umlambomunye Community Trust will own 48 per cent of the equity invested in the Amafolosi Partnership at the time of its establishment. This share is expected to increase over time as the members of the community gain confidence in the scheme and exchange their own cattle and cash for units. It is also possible that:

- An application submitted by the Umlambomunye Community Trust to the Provincial Department of Agriculture (DoA) for a grant to develop infrastructure (replace old fences, upgrade roads and improve a dip-tank) used in partnership with the former owners will be successful. This grant would boost the trust's share of the partnership's equity fund by an amount equal to the value of the grant.

- One or more donor organisations will respond positively to funding requests made on behalf of the eGamalethu CPA, allowing it to become a third member of the

[11] South African tax law allows livestock farmers to value animals at 'standard values' for income tax purposes. These values are set by the Receiver of Revenue at levels below prevailing market values and reduce the farmer's income tax burden.

operating partnership. Dividends earned by the CPA could be used to finance services (e.g. burning firebreaks) and to maintain communal infrastructure (e.g road repairs) on Clipstone.

- The Umlambomunye Community Trust could reinvest the principal redeemed on its loan as equity in the Partnership.

To promote skills transfer and transparency, the partnership's board of directors will comprise of five members nominated by Sherwood CC representing the previous owners, and five nominated by the community trust. Some of the community representatives will be chosen from women participating in the trust.

The board will employ a manager to operate the farm, subject to policies established by the directors. Although the trust and CC may appoint an equal number of directors, voting rights will be commensurate with their respective shares in the partnership fund. For example, if the trust owns 48 per cent of the partnership fund, their directors will carry four votes compared to the five votes carried by the CC's directors.

In the future, it is possible that the eGamalethu CPA will invest in the partnership in its own right. As an interim arrangement the Board may appoint a non-voting director to represent the interests of the CPA. Likewise, an independent party (most probably from Rutsch, Howard and Associates) will fulfill the role of 'honest broker' on the board. This person, while not having voting rights, will help the trustees serving on the board to participate in decision-making during the first five years of operation.

3 ISSUES ENCOUNTERED DURING IMPLEMENTATION

3.1 Finance

In theory, community members could start investing in the business using their own cash or livestock but petty investments would be risky as the existing beef enterprise is too small to be financially viable. It is therefore important that additional funding be sourced to finance a **significant** increase in livestock numbers. Initially loan funding was considered. Both Ithala Finance & Investment Corporation and the Land Bank accept breeding cattle as security for loans to finance their purchase. The collateral value of the animal is enhanced by inserting a traceable computer chip under its skin.

The business also requires additional working capital for which the banks require surety. Unfortunately, the partners cannot pledge land as collateral owing to a restrictive condition in Sherwood's deed of title[12]. As a result, the equity-share scheme is very dependent upon the award of an LRAD grant so that the community can invest both the equity and debt finance needed to give them a substantial share of ownership and control over a larger and financially viable joint venture.

3.2 LRAD policy

The first application for LRAD grant funding failed because the programme is limited to full-time employees in cases where the grants are used to finance equity in a farming enterprise.

[12] The current owners of M.B. Morton Estates (Pty) Ltd. support the restriction imposed and respected by earlier generations of their family to prevent mortgaging of Sherwood.

At Sherwood, many of the prospective beneficiaries are retrenched farmworkers. The community was dismayed to learn that only those employed on Sherwood would qualify for LRAD grants, while those who were unemployed (and who most needed financial support) would not. The application was therefore rejected by the DLA on the grounds that it would be divisive and create conflict within the community.

It appears that LRAD policy is being implemented with more latitude by some provinces. For example, some of the large share-equity projects in the Western Cape include LRAD-funded seasonal workers. In further correspondence with the DLA in KwaZulu-Natal, it was established that the application would be reconsidered if all of the prospective beneficiaries agreed to do some work on the farm. The business plan presented in the second LRAD application allocates all participants who are not employed full-time on Sherwood to teams that will burn firebreaks and maintain roads and fencing at certain times of the year.

The revised application was submitted to the Provincial DLA at the end of April 2004. The application is due to be considered by the District Screening Committee on 28 July 2004, this committee having not met since April. If accepted, the proposal will be submitted to the Provincial Grants Approval Committee (PGAC), which should meet during August 2004.[13]

Relaxing LRAD's eligibility constraint for equity-share schemes is important in KwaZulu-Natal where many prospective beneficiaries living on commercial farms are unemployed. If Sherwood's second application is rejected for the same reasons as the first, LRAD will do little to redistribute wealth, income and skills to the poorest people in the Province.

3.3 Literacy and understanding

Literacy levels are very low amongst prospective beneficiaries. The average level of adult education is grade 7. Substantial efforts were therefore made to ensure that members of the community had a full understanding of the objectives and mechanics of the proposed equity-share scheme. A 'share game' was developed and played amongst small groups of community members to demonstrate how shares are acquired and to explain their attendant rights and obligations. Organisational arrangements, governance issues and management were discussed in detail (see the paper by Ngobese that follows).

A series of training workshops was held in which the following topics were covered:

- Duties of each office bearer
- Conducting meetings
- Bookkeeping
- Budget planning
- Project planning
- Funding proposals
- Conflict resolution

[13] The District Screening Committee did not review the revised application until 5 November 2004. Again, the application was referred back to the BASIS researchers who managed to arrange a third hearing on 17 November 2004 where they could defend the application. Certain amendments were suggested and accepted at this meeting, and it was agreed that the revised application would be forwarded to the Provincial Grant Approval Committee on 30 November. This cumbersome evaluation process is a serious obstacle to land reform in KwaZulu-Natal.

An important aspect of the facilitation process was to convince community members that the current balance of power between farmworker and employer would change and that the community would be able to participate effectively in the policy-making process. To help achieve this, provision was made to include an 'honest broker' on the Partnership's Board of Directors. This person, although not entitled to vote, will mentor community representatives on the Board helping them to make a meaningful and informed contribution to debate and decisions – especially during the early stages of the business.

3.4 Tax on transfer of livestock

The original intention was for the existing Sherwood Farming Partnership to sell all of its livestock to Sherwood CC for investment in the new Amafolosi Partnership. However, this transfer of assets to the CC also transfers taxable income to the existing partnership. To some extent, the tax burden can be offset against losses accumulated by the existing partnership, i.e. a portion of the herd can (and will) be transferred to Sherwood CC without attracting income tax. The balance will be leased to the Amafolosi Partnership using the traditional 'sheep lease' described in section 2.2.

3.5 Eligibility criteria

Initially, the community restricted participation in the proposed equity-share project to those members residing permanently on Clipstone. However, in an attempt to comply with LRAD policy, prospective beneficiaries have also agreed to offer two months of paid labour to the Amafoloisi Partnership annually. As discussed in section 3.2, acceptance of this condition by the DLA in KwaZulu-Natal is critical for the future of equity-share schemes in the province.

3.6 Tradability of shares

Strong community preferences for tradable shares (to overcome poor access to reliable savings institutions) forced the project team to structure the equity-share scheme as a partnership between Sherwood CC (representing the interests of the former owners) and a participatory unit trust (representing the interests of community participants) rather than as a private company. Whereas a private company cannot finance its own shares, the proposed organisational arrangement allows the enterprise to finance the participatory unit trust as a buyer of last resort, but requires careful construction of a partnership agreement to retain the good governance features (e.g. external financial audit) and property rights (e.g. benefit and voting rights proportional to investment) of a private company.

4 CONCLUSION

The BASIS research project has succeeded in designing an innovative equity-share model for Sherwood. The proposal draws heavily on 'best institutional practices' identified in farmworker equity-share schemes studied in the Western Cape, but modifies these practices to suit local conditions. The project team adopted a truly participatory approach in the design process, and consulted experts to establish the proposed legal entities and lease agreements. The team is confident that prospective participants have received sufficient training to commission the project, but recognises that those representing members of the Clipstone community will require ongoing mentoring and skills transfer.

The research project has not yet succeeded in influencing land reform policy. Approval of the revised LRAD application will, however, set an important precedent by extending grants to beneficiaries who are not currently employed on the commercial farms in which they are investing. It will also give the land reform beneficiaries at Clipstone a meaningful interest in a financially viable farming enterprise, promote empowerment by creating a sustainable community organisation, provide incentives to reduce the stocking rate on Clipstone, extend savings and investment opportunities to beneficiaries that do not own livestock, finance the investment required by Sherwood's owners to make better use of its resources, and improve relationships between the beneficiary community and neighbouring commercial farmers.

PROPOSED ESTABLISHMENT OF CLAVELSHAY EQUITY-SHARE SCHEME: SECURING RESIDENTIAL RIGHTS FOR FARMWORKERS

Kathy Pitout[14]

1 INTRODUCTION

Clavelshay Farm is located in the Noodsberg region of the KwaZulu-Natal Midlands, approximately 64 km east of Pietermaritzburg. Prospective partners in the proposed equity share business include the current landowners, Mr. Louis Freese and his family, as well as eight labour tenant families, each of whom has at least one member employed on a full-time basis on Clavelshay.

The proposed business will initially focus on beef ranching. In the future, it may expand its activities to include game ranching and eco-tourism. The portion of Clavelshay allocated to the equity-share scheme has an annual carrying capacity of approximately 250 animal units. The objectives of the proposed equity-sharing scheme are:

- Promote broad-based black economic empowerment (BEE) on Clavelshay by transferring financial equity, knowledge and management skills to farmworkers.

- Establish institutional arrangements that will serve both parties later when entering into the larger game farming enterprise. It is anticipated that successful implementation of an equity-sharing scheme on Clavelshay will encourage participation by neighbouring white commercial farmers, farmworkers and adjoining black communities in establishing a larger game ranching joint venture[15]. It is further anticipated that future inclusion of neighbouring black communities will reduce the incidence of poaching and poach-grazing on Clavelshay and other commercial farms incorporated in this game ranching enterprise.

- Enable worker-shareholders to acquire secure property rights to their own residential land on Clavelshay. Mr. Freese has agreed to donate a portion of the farm to the worker-shareholders, and the equity-share proposal makes provision for government housing grants to finance homes built on this property closer to services.

Mr. Freese has also expressed a willingness to sell a further portion of Clavelshay to the worker-shareholders, financed with LRAD grants, with the intention of exchanging this land for equity in the game ranching operation or leasing it to the game enterprise.

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[14] Planning Manager, Lima Rural Development Foundation, 200 Boom street, Pietermaritzburg, telephone: 033-3429043.

[15] Initially in 2002, Mr Freese and nine of his commercial farmer neighbours planned to pool resources for a joint game ranching venture using land redistribution grants given to farmworkers by the government to help pay for fencing, wildlife and improvements. In the course of facilitation, the project team decided to focus on establishing a farmworker equity-sharing beef enterprise on just the Freese farm, but establishment of an eco-tourism option involving neighbouring farms, farmworkers and black communities remains a long-term option.

2 PROJECT DESCRIPTION

The proposed equity-sharing project will be structured as a beef ranch operating partnership that will rent-in approximately 650 ha of grazing land from Mr. Freese on a long-term lease. Operations will initially be built on Clavelshay's existing beef ranching enterprise, an extensive enterprise that does not place heavy demands on capital or management, and which does not entail investment in assets that are difficult to liquidate. Opportunity exists for including the land in a proposed game ranching business spanning ten commercial farms and adjoining communal land. Future enterprises may include wildlife photo-tourism and hunting.

Establishment of the equity-share scheme is contingent upon the eight families who currently reside on Clavelshay agreeing to relocate to a portion of land on the perimeter of the property where they will not be endangered by the game farming enterprise. The families will receive residential sites, homes and garden plots of similar or larger size than those currently used on Clavelshay, and will own this property themselves - either individually or through a trust. Mr Freese is also prepared to sell a portion of the 650 hectare tract of grazing land to the workers on condition that the land purchased is rented back to the ranch operating company on a long-term lease, or alternatively exchanged for equity in the ranch operating partnership.

Mr Freese would like to limit participation in the equity-share scheme to the permanent employees that currently reside on his farm, plus two other long-term farm employees. It is proposed that these workers voluntarily acquire ownership in the ranch operating partnership through a workers' trust (registered as a participatory unit trust) by voluntarily exchanging cattle for units (shares), or by paying cash for shares. The trust would then invest the capital contributed by the beneficiaries in the operating partnership (Figure 1). Initially each ordinary share will cost R100. An independent assessor will value cattle contributed by individuals; i.e. an individual contributing an ox valued at R3,000 would receive 30 ordinary shares.

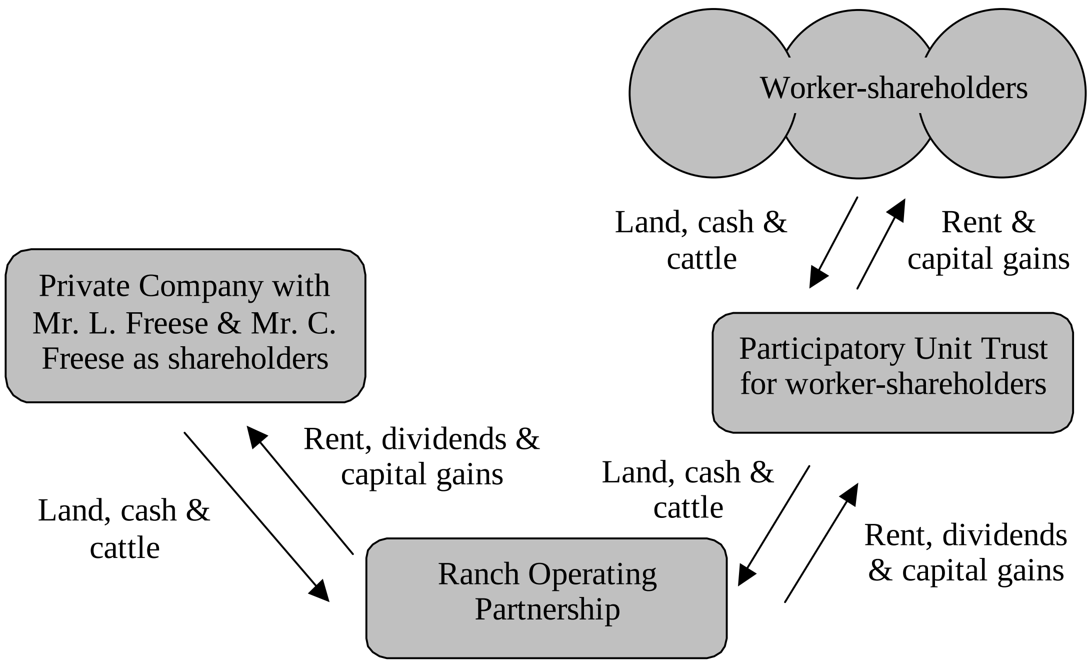

Figure 1: Proposed oganisational structure

3 PROGRESS TO DATE

3.1 Securing farmworker residential rights

Lima Rural Development Foundation, acting as facilitator, has been holding discussions with the provincial departments of Land Affairs (DLA) and Housing in an attempt to establish a residential settlement consistent with the DLA's policy of securing land rights for farmworkers. There are numerous farmers in KwaZulu-Natal who are willing to donate land suitable for residential development to their workers and to offer them shares in the enterprise if they are willing and able to relocate their homes. This voluntary approach to securing land rights for farmworkers offers advantages to both parties – farmworkers obtain secure residential rights and a share of the benefits and control that accrues to owners, while the current owner resolves claims made by workers to property rights on his or her farm and gains an incentivised workforce. It therefore warrants serious attention as an alternative to rights-based claims that have undermined good labour relations on commercial farms, and further encouraged farmers to adopt labour-saving technology - a process that reduced overall employment on South African commercial farms by more than 25 per cent over the period 1988-1996 (Statistics South Africa, 2000).

The Clavelshay project was chosen specifically because it had the potential to establish precedents in policy and procedure that have hugely important implications for pro-growth reform of commercial agriculture. The process could be managed so as to secure land tenure for both farmers and workers, while simultaneously redistributing ownership and control of agricultural assets through equity sharing. Discussions were opened with farmworkers at Clavelshay early in 2002 to explain the equity-sharing proposal and to construct a socio-economic profile for each of the eight resident households. In October 2003, the Department of Land Affairs visited the families to explain their existing property rights and to ascertain whether they were aware of the rights they were negotiating with Mr Freese. All of the families agreed to surrender their existing rights in exchange for rights to the new portion of land being offered by Mr Freese.

3.2 Application for housing grants

The Provincial Department of Land Affairs was approached late in 2002 about procedures to submit an application for housing grants as part of a farmworker equity-share scheme. The Department explained that their core business was land redistribution and not housing development, and recommended that the application be submitted to the Department of Housing (DoH). Discussions with the DoH began in earnest in February 2003 and had not reached a conclusion at the time of writing (July 2004). Negotiations stumbled on questions about the most appropriate subsidy instrument and legislation to pursue in the application to establish a small, rural township. A goal of the project team is to make the application and provision of housing a simple and inexpensive process that can easily be replicated on other commercial farms. At present this appears to be an impossible task owing to prohibitively high fixed costs associated with the requirements of the application (land survey, subdivision of individual sites, environmental scoping report and a geo-technical assessment) and rigorous standards for buildings and infrastructure. Four subsidy instruments have been considered:

- **Individual subsidy** – enables beneficiaries to purchase serviced stands and to enter into house building contracts, or to purchase existing improved residential properties that are not part of subsidised housing projects. The DoH is willing to consider this option provided that it is supported by the local municipality and is linked to the municipality's Integrated Development Plan (IDP). Support for the Clavelshay housing project was obtained from the Umswathi Local Municipality in May 2003.

- **Project linked subsidy** – enables beneficiaries to purchase complete residential units constructed within a subsidised housing project. The DoH considers the Clavelshay project too small to support with this subsidy.

- **Institutional subsidy** – enables institutions to build affordable housing for persons who qualify for housing subsides. An applicant whose monthly income does not exceed R3,500 qualifies for a grant of R23,100 but this subsidy is paid to the approved institution. The institution then supplies affordable housing on either a deed of sale, rental or 'rent to buy' basis on condition that beneficiaries are not compelled to pay the full purchase price and take ownership within four years of receiving the subsidy. Institutions must also invest capital of their own in the project. Again, the scale of the housing project proposed at Clavelshay is not large enough to make this subsidy instrument feasible for institutions.

- **The people's housing process** – caters for beneficiaries of all subsidy types who wish to build, or manage the building of, their own homes.

3.3 Township establishment

Township establishment refers to the establishment of a new township and involves rezoning (e.g. a change in land use from agricultural to residential) and the survey and registration of individual sites (subdivision). There are four key pieces of legislation governing township establishment in the Province of KwaZulu-Natal and which could apply to the proposed development[16]:

Natal Town Planning Ordinance, Ordinance 27 of 1949: The original purpose of the ordinance was to consolidate and amend the law relating to the establishment of private townships, the subdivision and layout of land for building purposes or urban settlement, and the preparation and implementation of town planning schemes. Although the Ordinance has been the predominant legislation used in KwaZulu-Natal, it imposes high standards for services and expensive processes to attain approval. In practice, the Ordinance tends to apply first world standards to third world situations – a problem that has resulted in the displacement of much needed infrastructure. To address this issue, other legislation such as the *Upgrading of Land Tenure Rights Act, Act 112 of 1991,* the *Less Formal Township Establishment Act, Act 113 of 1991 and the Provision of Certain Land for Settlement Act, Act 126 of 1993* was introduced.

Less Formal Township Establishment Act, Act 113 of 1992: This legislation can be used to 'fast track' township developments where there is an urgent or identified need for housing.

[16] The *Extension of Tenure Security Act, Act 62 of 1997,* was overlooked. The possibility of using Act 62 to secure grant funding for the construction of houses and for the purchase of equity in an approved equity-share scheme was raised by delegates from the Western Cape at the mini-conference and has since been taken up with the departments of Land Affairs and Housing in KwaZulu-Natal. The departments agreed to pursue the issue jointly, but it unlikely that this investigation will result in a decision to consider an application for grant funding at Clavelshay before 31 December 2004 when the BASIS program ends.

Previous legislation (e.g. *Ordinance 27 of 1949*) was often time consuming for developers and required them to lay out funds prior to development. The *Less Formal Township Establishment Act* (commonly referred to as LEFTEA) allows for the development to be declared prior to commencement. However, the Act still requires land survey and registration of individual sites, environmental scoping and geo-technical assessment. The only real benefits of LEFTEA are that a development area can be declared before commencement of construction (so developers face less risk in laying out funds) and registration fees are considerably reduced at the Deeds Office.

Development Facilitation Act, Act 67 of 1995: The DFA introduces extraordinary measures to expedite reconstruction and development projects in relation to land. It provides nationally uniform procedures for the subdivision and development of land in both urban and rural settings, accelerates the rezoning and approval process, and allows end-user finance in the form of subsidies and loans to be released early in the development process. However, the DFA remains an expensive option for developers and generally requires the services of a professional consultant to obtain approval. It is estimated that a DFA application for a small housing project would cost between R15,000 and R30,000 for environmental and geotechnical assessment, preliminary land survey, layout plans and advertising required by the DFA.

Applications for township development submitted under any one of these three pieces of legislation are assessed for desirability in terms of a range of issues (see box) all of which must be addressed in the application.

Key issues for consideration in planning applications

- Type and scale of uses/facilities proposed
- Locality and extent of site and proximity to other developments/settlements
- Present land use of the site
- Location and proximity of similar uses/facilities
- Target market to be catered for
- Existing plans, policies or development guidelines which have a bearing on the development, as well as proposed development in the vicinity
- Relevant socio economic statistics for the area to determine demand
- Access to the site
- Agricultural value of the site, and possible impact on surrounding agriculture
- Environmental information and assessment of the site and surrounding area, and anticipated impact of development, including:

  Biophysical environment including geology and soil types, hydrology, topography, vegetation, and fauna

  Social and aesthetic environment including compatibility with surrounding uses, desirable unique or rare features, visual character of the site, and views

  Use of the Integrated Environmental Management approach including involvement of affected parties

Provision of Certain Land for Settlement Act, Act 126 of 1993: Act 126 allows for the designation of land, regulates the subdivision and settlement of this land, and provides for financial assistance to acquire the land. In terms of section 2 of the Act, laws governing the subdivision of agricultural land and the establishment of townships do not apply to designated land unless the Minster directs otherwise. The Act also does away with transfer and stamp duties. According to the National Department of Land Affairs, it is possible to use Act 126 for township establishment, but the Act has never been applied to a situation like Clavelshay and would still require a formal designation notice in which the Minister would impose conditions governing township development. It is also understood that the use of Act 126 to establish a settlement is not necessarily linked to a financial grant from the Department of Land Affairs.

3.4 Strengths and weakness – suggesting a way forward

In terms of the legislation discussed, the *Natal Town Planning Ordinance, Ordinance 27 of 1949,* the *Less Formal Township Establishment Act, Act 113 of 1992,* and the *Development Facilitation Act, Act 67 of 1995,* all offer a developer a very formalised process of township establishment which government officials are familiar with and willing to support. However, the financial costs of securing approval for townships developed in terms of this legislation are high, especially for small schemes like Clavelshay. The *Provision of Certain Land for Settlement Act, Act 126 of 1993* is designed to facilitate land reform projects and dispenses with the stringent requirements of township establishment legislation. Unfortunately, this Act has not yet been applied to a situation like Clavelshay.

In order to secure property rights for the residents of small scale housing projects on farms, discussions are still being held with the Department of Land Affairs and the Department of Housing to determine whether or not the *Provision of Certain Land for Settlement Act, Act 126 of 1993,* or the *Extension of Tenure Security Act, Act 62 of 1997,* can be used as enabling legislation. A precedent-setting request has been lodged with the DLA in KwaZulu-Natal to use Acts 126 and 62 as enabling legislation to access housing grants at Clavelshay. If approved, application will be made to the Department of Housing for individual subsidies for each of the beneficiary households at Clavelshay. Following recent amendments to the housing grant (an increase to R28,000) the subsidy should amount to R224,000 (8 x R28,000).

3.5 Land claim

In early 2004, the project team was informed of a land claim (the Kusile land claim) that had been lodged over several properties in the area (approximately 4,270ha) including parts of Clavelshay intended for the beef ranching enterprise and farmworker housing. According to the Commission on Restitution of Land Rights, the claim was gazetted in June 2004 as a community claim based on forced removals that took place between 1921 and 1970. As a result, the proposed equity-sharing project has been put on hold until there is clarity on how the claim will be settled. The DoH has, however, agreed to consider a hypothetical application in order to establish precedents and procedures that might assist other commercial farmers and farmworkers seeking tenure security and mutually beneficial BEE partnerships.

4 CONCLUSION

Township establishment is a complex and costly exercise to undertake as a developer of land. The issue of township establishment is even more difficult if the project is of a small scale and is to be undertaken in a rural area by a commercial farmer. To date, the Clavelshay experience has failed to identify cost effective legislation geared towards meeting the needs of farmers and farmworkers who are willing to negotiate with one another to obtain tenure security as part of an equity-sharing empowerment deal. However, the project team will continue to explore and test feasible options for farmers to link the development of small townships to subsidies for housing and agricultural development. A promising avenue is the *Extension of Tenure Security Act, Act 62 of 1997,* which appears to have been successfully exploited in the Western Cape Province.

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FACILITATING A FARM BASED EQUITY-SHARE SCHEME: THE CASE OF SHERWOOD AND THE CLIPSTONE COMMUNITY

Nokulunga Ngobese[17]

1 INTRODUCTION

The first time I was introduced as a facilitator to the Sherwood equity-share project and Clipstone community was at the end of 2002. The project sounded promising, sufficiently so that I thought people of Clipstone farm would embrace and accept the concept of equity sharing with the same excitement as me. In the first meeting I attended, the general idea of the equity-share scheme was introduced to the community. Although I expected that not everyone would be entirely open or favourably inclined to the idea, I did not anticipate the level of distrust community members had for the so-called ‘experts’ in development. As the meeting went on, I came to understand the origins of this distrust.

First, the residents of Clipstone had experienced situations where people from various governmental departments and other organisations had in the past made promises and raised hopes of the community but after leaving were never seen again.

Second, the project raised a number of very sensitive issues, particularly with regard to the status and future ownership of their cattle. Clipstone residents became even more suspicious when it was proposed that the project would include their employer, the manager of Sherwood farm, in partnership with them.

As discouraging as the situation seemed at that time, some community members remained open-minded and were prepared to consider the proposed partnership. A decision was taken by the project management team to begin introducing and facilitating the equity-sharing concept amongst willing participants.

2 FACILITATION METHODOLOGY

2.1 Community survey

A census survey of households residing on Clipstone was conducted in May 2002 to gather demographic data including literacy levels. This information was used to identify appropriate means of communication for the facilitation process. Levels of formal education were found to be extremely low amongst adults. Grade 7 (standard 5) was the highest grade passed for most of the cattle owners and potential shareholders. This meant that any strategy used to explain the concepts of ownership and control via tradable benefit and voting rights (shares) should be as simple as possible for the community to understand.

To work around this problem, a card game was developed and used to demonstrate the purchase of shares in the operating company by first having the market value of a cow assessed, and second assigning shares of equivalent value to participants. The community was divided into small groups so that everyone could participate and be involved, and to make it easier for questions to be asked during the course of the game. Participants from Clipstone

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community generally found that the game improved their understanding of core concepts and principles.

Figure 1: Members of Clipstone community playing a card game during the facilitation process to better understand their rights in the proposed Sherwood equity-share project

2.2 Community meetings

Community meetings were organised during weekends or afternoons when most farmworkers were free to attend. These meetings were convened to keep the community informed about progress on the project and to debate in a public forum - and reach consensus on - issues that needed to be resolved. Notice of meetings was given through the manager of Sherwood and the Chairperson of the community's Communal Property Association (eGgamlethu CPA). Afternoon meetings worked best as the manager of Sherwood agreed to release employees early if they attended. Although one might expect that weekend meetings would be more convenient, very few people were available on weekends due to unforeseen community commitments, in particular funerals and other family engagements. Community meetings were called every two months (or more frequently if there were urgent issues to discuss) during 2003 when most of the institutional arrangements were discussed, refined and formalised.

2.3 Workshops and training

Workshops to discuss objectives of the project, its business plan, legal documents (uMlambomunye Trust Deed and Amafolosi Partnership Agreement), and arrangements for meaningful participation in the equity-sharing enterprise had to be scheduled for weekends owing to their long duration. Attendance was poor even though the workshops were intended only for those members of the community who wanted to participate in the equity-share scheme. In general, only the nominated trustees (of uMlabomunye Participatory Trust) attended. Most of the trustees were also committee members of the eGamalethu CPA. Their involvement in the process gave the community some confidence that the partnership would be to their benefit.

The workshops were aimed at making the concept of equity sharing clearer and more meaningful to the participants. From using the game to understand buying and selling of shares, the workshops graduated to the repeated development and use of an organogram (see paper by Peter Greene) that illustrated the different groups and entities involved in the partnership and their respective roles and responsibilities. The organogram also proved helpful in explaining changes made to the equity-share proposal during the course of facilitation[18], and in explaining and illustrating the allocation of voting rights to trustees and members of the (partnership's) Board of Directors.

All the trustees, except for one, had low levels of formal education. A participatory training programme was developed to assist all members of the community understand the roles of directors and trustees (see Box A). Lima keeps a range of training manuals, written in isiZulu, and relevant chapters were extracted and used in the training program. Despite their low level of education, participants showed noticeable progress and understanding of methods and principles taught, although it was also clear that some had difficulty, especially with book-keeping. Three training sessions were dedicated to this topic but attendance was low as only those with some numeric and literary skills attended. Further training in these, and mentoring in more advanced managerial skills, will be necessary if the trustees and directors are to exercise their rights and duties effectively.

Box A: Key Components of Training Program

- Responsibilities of trustees and directors
- Duties of each office bearer
- Conducting meetings
- Bookkeping including opening bank accounts, receipts, writing cheques and cheque books
- Budget planning
- Project planning
- Writing of project and funding proposals
- Conflict resolution

2.4 Participation of women and youth

Participation of women and youth was strongly emphasised and encouraged throughout facilitation. Most of the women and youth participated at the early stages when the concept of equity-sharing was first explained. However, they tended to drop out when participants were asked to commit cash or livestock in exchange for shares.

Women who were able to buy shares tended to be heads of households and those owning cattle. These women also tended to participate regularly in meetings and workshops; some were already involved in community leadership. Results of the household survey suggested that lack of participation and commitment to buying shares was due to two factors; (a) low levels of income and the prioritisation of expenditures toward school, healthcare and food; and (b) not having enough wealth to buy shares. A minimum contribution of R100 was required to purchase a unit (share) in the uMlambomunye Participatory Trust and to participate as partners in the equity-sharing project.

[18] For example, the decision to register the operating entity as a partnership rather than as a private company.

Very few young people showed interest in participating in the project as most lacked wealth (livestock) and wage income. Those who did show an interest tended to be household heads that were encouraged to participate by the management committee of the eGamalethu CPA. Some attended on behalf of heads of households who were unable to attend.

2.5 Financial assistance

The manager of Sherwood farm agreed to purchase each of his (12) workers a single share to encourage community involvement. This gesture succeeded in drawing some women and younger members of the Clipstone community into the project - albeit with just a 'spadeful' interest – and helped to demonstrate the process of buying additional shares to acquire a larger share of benefit and voting rights over time. However, to broaden community access and participation in the equity-sharing project, an application was made for grant funding in terms of the Land Redistribution for Agricultural Development (LRAD) programme. The initial application was made on behalf of those members of the community that had agreed to commit cash and/or livestock to purchase equity in the project and who were currently employed on Sherwood. The latter condition, considered by the Provincial Department of Land Affairs (PDLA) to be a LRAD policy requirement, further skewed financial assistance away from the most needy, unemployed members of the community and threatened to disrupt relations at Clipstone.

An audit conducted by the PDLA confirmed high levels of discontent within the Clipstone community and the LRAD application was rejected for this reason. Fortunately, lobbying at both provincial and national levels persuaded the PDLA to reconsider their interpretation of LRAD policy and a second application was made for 43 adults who were willing to participate in, and contribute labour to, the equity-sharing project. The second application was still pending at the time of writing in July 2003[19].

CONCLUSIONS

Although community members had initial concerns about exchanging their cattle for equity and sharing ownership and control with their current employer, these concerns eased and were eventually dismissed as the mechanics and benefits of the project were explained and made clear through ongoing meetings and workshops. This was displayed by their willingness to buy units (shares) in the uMlambomunye Participatory Trust and so participate as partners in the equity-sharing project. Some members were willing to purchase shares even without the benefit of LRAD grants.

Community interest in the Partnership was fuelled mainly by the ability to trade shares as this allowed shareholders to withdraw small amounts of cash rather than selling a large animal to meet infrequent obligations such as school fees. They also appreciated having different levels of investments and hence different levels of benefits and voting power - provided they were afforded equal levels of financial support to join the project.

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[19] The District Screening Committee did not review the revised application until 5 November 2004. Again, the application was referred back to the BASIS researchers who managed to arrange a third hearing on 17 November 2004 where they could defend the application. Certain amendments were suggested and accepted at this meeting, and it was agreed that the revised application would be forwarded to the Provincial Grant Approval Committee on 30 November. This cumbersome evaluation process is a serious obstacle to land reform in KwaZulu-Natal.

Affordability of equity proved to be a major constraint for the community, especially for women and youth. Extension of LRAD grants beyond the existing farm workers to include proposed farm workers has significantly broadened community participation making the proposed project more equitable and feasible.

A popular request at community meetings and workshops was to take some of the community members to an existing equity-share project where they could discuss the process and outcomes with beneficiaries. Unfortunately, at the time this facilitation took place, no other equity-share enterprises had been commissioned in KwaZulu-Natal to satisfy this request.

More must be done to strengthen trust between the current owners of Sherwood and the Clipstone community as partners in a joint farming venture. The manager's offer to help finance at least one unit (share) for each of his employees went some way to building this trust, but a small minority of members are still not participating despite the possibility of grant funding. Another positive step towards building trust has been the inclusion of an 'honest broker' on the partnership's Board of Directors to help articulate and defend the interests of the community. However, basic training in numeracy, literacy and life skills for the community at large, and ongoing training of trustees in administrative and management skills needed to participate effectively in the Partnership, will also help to strengthen the bridge of trust between white and black owners that only time and commitment can build.

MEASURING THE PERFORMANCE OF EQUITY-SHARE SCHEMES AS AN INSTRUMENT OF AGRARIAN REFORM IN SOUTH AFRICA

Bernadine Gray[20]

1 INTRODUCTION

A successful equity-share scheme should achieve a variety of goals, including the redistribution of wealth, worker empowerment, retaining or attracting quality management, creditworthiness, improved worker productivity and power relations, and provision for ownership and control to be fully transferred to previously disadvantaged shareholders (Eckert *et al.*, 1996; Knight *et al.*, 2003). Several studies have been carried out on equity-share schemes in South Africa. Some questioned the success of these schemes based on assessments of worker participation, empowerment, institutional arrangements and their ability to improve tenure security (Hall *et al.*, 2001; Karaan, 2003; Mayson, 2003). On the other hand, Knight (2003) showed that many of these concerns had been corrected in more successful projects, especially those with superior financial performance. However, no single study has adequately assessed the performance of equity-share schemes in terms of a comprehensive set of criteria that objectively measure the broader goals of agrarian reform (Mayson, 2003).

A holistic approach is needed to measure and monitor the performance of these schemes, and to identify reasons for their success or failure. Concerns raised in previous studies - and the objectives of Black economic empowerment and land reform policy in South Africa - suggest that consideration should be given to at least four criteria: poverty alleviation; empowerment and participation; institutional arrangements and governance; and financial performance. The sections that follow outline possible techniques for measuring these criteria with a view to identifying a feasible set of objective performance measures.

2 PERFORMANCE INDICATORS FOR EQUITY-SHARE SCHEMES

2.1 Poverty alleviation

Symptoms of poverty include low levels of income (Woolard, 2002) and economic wealth (Little, 2002), low levels of health (Southcentre.org, 2003; UNFPA, 2002) and poor standards of housing (May *et al.* cited by Shinns & Lyne, 2004). In order to assess the extent to which equity-share schemes enable participants to move out of poverty, it is necessary to consider the problem of measuring poverty.

The most commonly used determinant of poverty lines is income. The point at which a poverty line is drawn is somewhat subjective and often controversial (Barrett, 2003; Woolard & Leibbrandt, 1999). Some of the estimation problems are illustrated by differences in poverty lines used in various studies. For example, Woolard (2002) classified poor households as those with income less than R800 per month, while Statistics South Africa (Hirschowitz *et al.*, 2000) that classified households with total expenditure less than R1,000 as poor.

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Poverty lines may also be based on a single indicator that is constructed from a number of underlying variables (multi-faceted index). For example, housing quality is a single indicator of poverty but may be computed from variables measuring the type of building materials used, access to sanitation and access to water. Examples of such multi-faceted indexes are the household infrastructure index (HII) and household circumstances index (HCI) developed by Statistics South Africa (Hirschowitz *et al.*, 2000). Cut-off points are then applied to these indexes to separate their sample into 'developmental groups'. However, these cut-off points are arbitrary as they have no theoretical or empirical basis.

Carter and May (2001) present a dynamic approach to measuring poverty based on underlying assets. They use a standard money metric poverty line that is interpreted as a cut-off point between households that fall above or below a certain asset base. By expressing the poverty line in terms of income predicted from observed asset holdings, this approach has more in common with Zeller *et al.*'s (2003) view that poverty is multi-dimensional and has both qualitative and quantitative indicator variables.

Shinns and Lyne (2004) studied the poverty status of land reform beneficiaries at Clipstone farm in KwaZulu-Natal. Poverty symptoms were measured in terms of housing quality, income, health and wealth. Most households were found to be relatively income 'rich' and asset poor or income poor and asset 'rich'. Following Carter and May (2001), changes in the distribution of poverty over time can be studied by constructing 'transition matrices' to track the movement of individual households between poverty groups. In essence, the transition matrix shows whether certain poverty groups have grown or shrunk. The significance of these shifts may be tested using statistical approaches.

2.2 Empowerment and participation

Empowerment is a process that enables participation. Narayan (2002: 11) defines empowerment as "the expansion of assets and capabilities of poor people to participate in, negotiate with, influence, control and hold accountable institutions that affect their lives". While Nayaran (2002) and others (Bartle, 2003; Reid, 1999) treat empowerment and participation as synonymous concepts, this study takes the view that empowerment and participation are two distinct concepts - empowerment is an enabling process and participation focuses on the meaningfulness of participation itself. Empowerment may only impart the right to participate in, and benefit from, an activity. Bartle (2003) lists sixteen elements of empowerment, while the World Bank (Narayan, 2002) defines four. These elements have been grouped into four main indicators: empowerment, outreach and trust on the one hand and participation on the other. Together they provide people with the means, skills and incentives needed to participate in decision-making processes.

Empowerment and participation improve the level of human capital in a project through skills transfer, access to information, and control and ownership. Access to information and skills transfer is promoted through meetings and the facilitation process. Skills transfer through training in financial, administrative and management subjects improves the ability of trustees to carry out their responsibilities (Knight & Lyne, 2002). Even if training programmes are certified and understood by worker-shareholders, empowerment may be constrained by a small relative shareholding. This small shareholding may also constrain their ability to influence policy on matters such as working conditions.

Measures of empowerment due to the combined effects of skills transfer, relative shareholding and access to information may best be found in the outcomes of these schemes. If empowerment is successful then positive outcomes of equity-share schemes should include improved working conditions and tenure security, fostering of trust of worker-shareholders in the scheme and improved labour relations.

Equity-share schemes are a means of transferring income, in the form of wages and dividends, and wealth through ownership of marketable shares to the poorest of people. Outreach performance depends on the ability of the scheme to increase the incomes and wealth of poor people. According to Mayson (2003), men participate disproportionately more than women in equity-share schemes because participation is linked to employment. Women generally did not participate as equals in the schemes studied by the Surplus People Project. Knight's study was more positive about female participation, but found that women are discriminated against in terms of wages (Knight & Lyne, 2002). Skills transfer to women, in particular, may help to bridge the gender divide between salaries.

An atmosphere of trust and reliability is required for a successful equity-share scheme (Knight & Lyne, 2002). Trust in the potential of the equity-share scheme to perform well is a prerequisite for shareholders to reinvest in the business and grow their equity. Knight and Lyne (2002) showed that some workers were willing to forego current earnings in order to reinvest, thereby revealing an understanding of the project and confidence in management.

Ndibi and Kay (1999) developed a measure to estimate community participation. Following their approach, activities comprising the process of establishing and managing an equity-share scheme are weighted to indicate their relative importance. Community participation rates are estimated for each activity and the overall participation rate is computed as the weighted average of participation rates across all activities.

2.3 Institutional arrangements and governance

King (2002) identified governance practices applicable to all business entities. Good governance incorporates the following: externally audited financial statements, disclosure and circulation of financial statements, notice and conduct of meetings, disclosure and circulation of minutes, sound voting and election procedures, personal liability of negligent directors and penalties for bad management. Benefit and voting rights should be proportional to individual investment by shareholders, and shares should be fully transferable to alleviate free- and forced-rider problems.

2.4 Financial performance

Indicators of financial performance over time may be gained from financial ratios. It is important to note that assets in the balance sheet are usually valued at historical cost whereas they should be assessed at current market value to compute meaningful ratios. This is especially important where land represents the largest underlying asset of the business and in times of significant inflation.

Return on assets (ROA) and return on equity (ROE) are commonly used to assess profitability of investments in assets and equity respectively. These ratios should be used only to compare like businesses or to examine trends over time. The current ratio is a general measure of liquidity at a point in time. It is important to note that the time of computing the current ratio will have bearing on whether it is low or high. The interest coverage ratio is a measure of the business' ability to repay debt and is analogous to the inverse of the debt:asset ratio. This ratio also measures assets relative to debt at a point in time and is generally subject to greater volatility than solvency ratios because of year-to-year fluctuations in income and interest rates (Barry *et al.*, 2000: 112).

The debt:asset, equity:asset and leverage ratios are mathematically related so it is not necessary to compute all three to gain information on the solvency position of the business. The advantage of the debt:asset ratio is that the norm remains relatively consistent between different types of businesses (Barry *et al.*, 2000: 110). The leverage ratio norm varies among different types and sizes of businesses (van Zyl *et al.*, 1999: 79).

Measuring growth of an equity-share scheme amounts to measuring the change in share price calculated as the current net asset value divided by the number of shares issued. Growth is therefore measured by capital gains on shares. This presents growth in absolute or relative terms and is useful in comparing trends over time but not for comparisons between different equity-share schemes.

The financial performance of the business should also be viewed from the worker's perspective. Apart from the direct financial benefits of acquiring equity in the business the workers may be better able to influence their working conditions. Each scheme may pay different combinations of these benefits so measures of change in total worker income must be used to compare the performance of schemes over time. Total worker income includes dividends, capital gains, wages, other benefits such as medical aid contributions and other non-cash items, and interest received by the workers from loans made to the business.

3 RESEARCH METHODOLOGY

This section outlines empirical approaches that will be taken to identify appropriate measures of a scheme's performance. In this study, appropriate measures are those for which information is readily available, that are objective, comparable at a point in time and which may be used to monitor performance over time.

3.1 Poverty alleviation

Poverty alleviation can be assessed using both relative and absolute poverty measures. The focus of this research will be a transition matrix based on the multi-dimensional measure used by Shinns and Lyne (2004). The household surveys at Clipstone and empirical analyses conducted by Shinns and Lyne (2004) will be repeated during the course of 2004 to test the method proposed to measure changes in poverty status. Following their approach, cluster analysis (CA) will be used to group households into poverty status groups on the basis of current income, wealth, housing quality and health observed for 76 cases, where the first 38 reflect observations made in 2002 and the second reflect observations on the same variables and households in 2004. This means that households can shift between poverty groups over time and that a transition matrix can be constructed to examine both relative and absolute changes in poverty.

3.2 Empowerment and participation

Figure 1 categorises variables that will be considered for a scorecard to assess the performance of equity-share schemes with respect to empowerment and participation. Ndibi & Kay's (1999) method will be used to estimate the overall level of participation by worker-shareholders at seven schemes surveyed in the Western Cape during February 2004. Data relating to the indicators for empowerment, trust and outreach listed in Figure 1 were also gathered at these schemes and will be used to identify an appropriate subset of variables and norms for the scorecard.

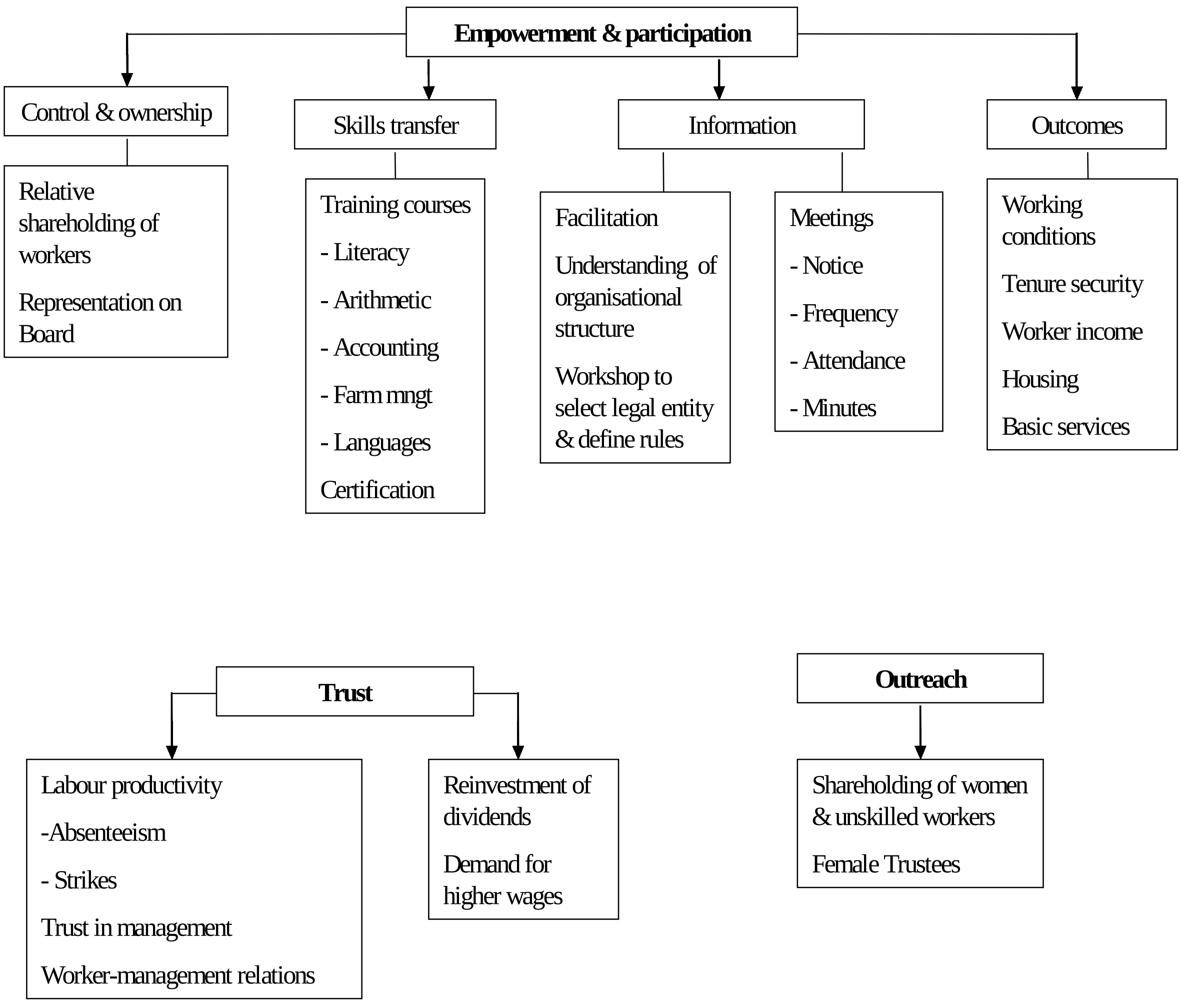

Figure 1: Performance indicators for empowerment and participation at equity-share schemes

3.3 Institutional arrangements and governance

The indicators presented in Figure 2 are based largely on King's (2002) recommendations for good governance. Again, a scorecard will be constructed to aggregate a subset of objective and feasible measures of transparency, accountability, property rights and organisational arrangements identified from data gathered at the schemes surveyed in the Western Cape. Questionnaires eliciting this information were addressed to managers and trustees serving on the Board of Directors.

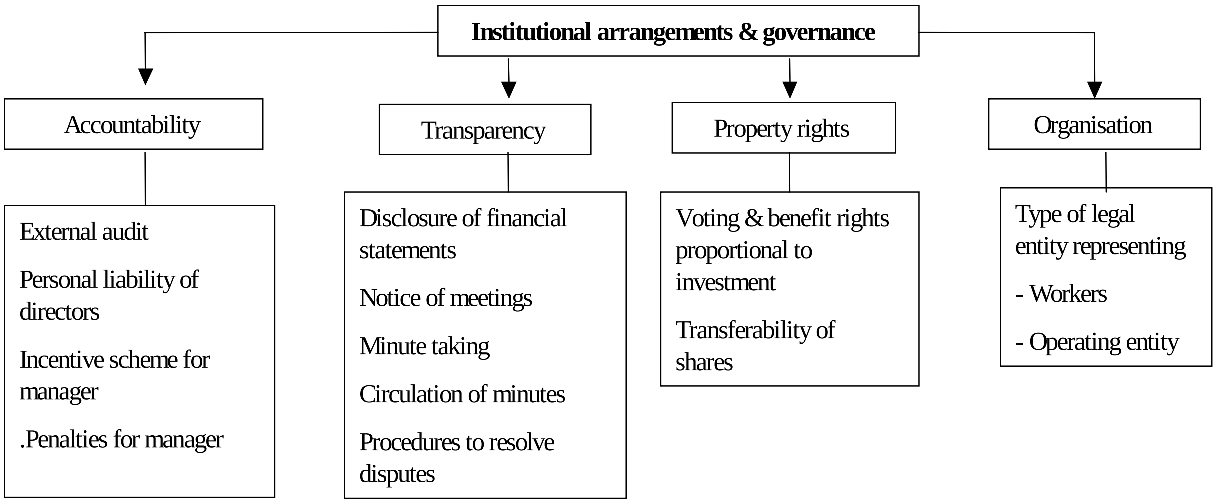

Figure 2: Performance indicators for institutional and governance arrangements at equity-share schemes

3.4 Financial performance

Financial statements for 2002 and 2003 were obtained from four of the seven schemes studied in the Western Cape and these were used to compute conventional ratio measures of liquidity, solvency, profitability and growth. The aim of this work was not to assess the performance of equity-share schemes but to propose a feasible set of indicators to gauge and monitor the financial performance of these schemes. The empirical analysis showed that certain financial ratios and conventionally applied norms are inappropriate for assessing the financial performance of farms recently restructured as equity-share schemes. Problems arise because equity often accounts for a small share of the capital invested by these empowerment projects, and investments tend to be in long-term crops with high establishment costs and low initial returns. When compounded by adverse market conditions, large losses made during the early years reduce equity to near-zero or even negative levels, rendering many financial performance ratios or their norms meaningless. The practice of 'disguising' equity as loans aggravates this problem.

For immature equity-share schemes, dividend return and return on assets are better measures of profitability than return on equity as they do not rely on positive equity. For the same reason, the debt:asset ratio is preferred to the leverage ratio as a measure of solvency, and growth is better measured by absolute rather than relative changes in the real price of shares. The apparent willingness of commercial banks to finance empowerment projects even though they are highly leveraged suggests that the debt:asset ratio and current ratio should not be compared with recommended norms but rather monitored to gauge the performance of a particular project over time. The interest coverage ratio is an alternative to the current ratio but both ratios suffer from the problem that they are static measures of liquidity. Consideration must be given to the time of year when the ratios are computed. Adequate assessment of liquidity requires that these ratios be combined with cash flow analysis. It may not always be feasible to obtain an accurate set of cash flow statements so ratios based on the balance sheet are the next best solution to measuring liquidity.

From society's perspective, the financial performance of a project could also be measured by changes in the real aggregate earnings of its workers over time. It is recommended that workers' income be computed by summing the wage bill, capital gains, dividends, interest and monetary value of any other significant benefits accruing to workers in aggregate.

5 CONCLUSIONS

Equity-share schemes are a means of transferring income and wealth to previously disadvantaged people. Many studies have questioned the ability of these schemes to achieve these goals but no single study has measured their performance in terms of a comprehensive set of criteria that objectively measure the broader goals of agrarian reform. Comprehensive assessment of equity-share schemes requires consideration of four criteria: poverty alleviation; empowerment and participation; institutional arrangements and governance; and financial performance. It is intended to measure poverty alleviation using a transition matrix constructed from a multi-dimensional measure of poverty. The feasibility of this measure will be tested using panel data gathered from land reform beneficiaries at Clipstone in the Midlands of KwaZulu-Natal. Appropriate indicators of empowerment and participation will be selected from a set of desirable indicators tested at seven equity-share schemes in the Western Cape. Those that are objective and easy to measure will be used to construct a scorecard yielding an aggregate measure of empowerment, participation, trust and outreach. A similar approach will be followed to produce a scorecard for institutional arrangements and governance.

Analysis of financial ratios at four of the seven Western Cape schemes revealed that certain ratios and conventionally applied norms are inappropriate for assessing the financial performance of farms recently restructured as equity-share schemes. Dividend return and return on assets are better measures of profitability than return on equity as they do not rely on positive equity. For the same reason, the debt:asset ratio is preferred to the leverage ratio as a measure of solvency, and enterprise growth should be measured by absolute changes in the real price of shares.

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