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PERCEPTIONS OF FARM WORKER EQUITY-SHARE SCHEMES IN SOUTH AFRICA

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Abstract

Farm worker equity-share schemes have received both positive and negative publicity since they were initiated by the private sector in the early 1990's. This paper adds to the debate surrounding these land reform projects. In particular, it compares the results of case studies conducted by the Surplus People's Project (SPP) in 1998 with more recent (2001) case studies. The latter suggest that many of the concerns raised by the SPP, such as beneficiaries' participation and expectations, power relations between management and worker-shareholders, skills transfer and labour relations have been addressed. The paper also highlights those issues that remain areas of concern, for example, beneficiaries' tenure security, literacy levels amongst worker shareholders, skill and wage differences between men and women, and exit procedures. It is recommended that Department of Land Affairs (DLA) grants should be awarded only to beneficiaries of projects that have been co-financed by a bank or reputable investor as this ensures a thorough financial assessment of the project, and only to projects that can demonstrate a history of good labour relations. It is also recommended that the DLA should consider extending its grants to regular but seasonal farm workers who wish to participate in an established project. While farm worker equity-share schemes may not provide all the answers to land reform they have an important role to play in redistributing wealth and deracialising commercial agriculture in South Africa.

1. INTRODUCTION

The 1913 Natives Land Act, which restricted African land "ownership" to tribal homelands, led to grossly inequitable land ownership in South Africa. At the beginning of the 1990's it was estimated that 12 million black people lived on only 17.1 million hectares of land whilst 60 000 commercial farms (almost exclusively white-owned) occupied 86.2 million hectares of land (Baber,

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1991:54). To promote political stability and hence economic growth in South Africa it is essential that ownership patterns within commercial agriculture should change in a meaningful way without undermining the sector's productivity in the long run.

Between 1994 and 2000 the government offered a R15 000 (and later a R16 000) settlement/land acquisition grant (SLAG) to historically disadvantaged households who wished to purchase land on the market. The results of this programme were disappointing and fell far short of stated goals (Deininger *et al*, 1999:12). In the province of KwaZulu-Natal where farmland transactions have been monitored since 1997, less than 0.5% of the commercial farmland owned by whites has transferred to historically disadvantaged owners each year (Lyne & Darroch, 2001). The slow pace of land reform has been attributed to two fundamental obstacles. First, it is not economically feasible to partition large commercial farms into much smaller, affordable units in situations where resources are lumpy and the costs of surveying, transferring and registering sub-divisions are high (Simms, 1997). Second, prospective farmers lack capital and are unable to finance land with mortgage loans from commercial banks due to cash flow problems caused by high inflation rates and relatively low returns to land (Nieuwoudt & Vink, 1995).

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

Farm worker equity-share schemes are privately owned farming operations that are generally restructured as companies with the original owner of the farm and the farm workers as shareholders. Company management exercises exclusive use rights to the farmland with farm workers obtaining tradable voting and benefit rights (dividends and capital gains) in proportion to their financial investment. These institutional arrangements help to alleviate the free- and forced-rider problems that undermine co-operative forms of business organisation (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.

Mather & Adelzadeh (1997:11) describe equity-sharing 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*”. A successful farm worker equity-share scheme should redistribute wealth and future benefit streams (McKenzie, 1993; Eckert *et al*, 1996; Kirsten *et al*, 1996; LCRF, 2001:8); empower workers through skills transfer and their formal inclusion in policy making (McKenzie, 1993; Eckert *et al*, 1996; DLA, undated:20); retain or attract quality management (McKenzie, 1993; Lyne *et al*, 1998:6); attract capital from the private sector to finance new investment, *i.e.* preserve or enhance creditworthiness (Kirsten *et al*, 1996; Lyne *et al*, 1998:8; Pitout *et al*, 1998:66); improve worker productivity and labour relations (Eckert *et al*, 1996; Van Rooyen & Ngqangweni, 1996; Lyne *et al*, 1998:8); and provide for the transfer of both ownership and control of commercial farms to previously disadvantaged workers in the long-term (McKenzie, 1993).

In 1997 the Department of Land Affairs (DLA) extended its programme to finance worker interests in equity-share schemes (Graham & Lyne, 1999), but growing doubts about the programme saw a moratorium imposed on new grants in 1999 and its eventual replacement by the Land Redistribution for Agricultural Development (LRAD) sub-programme in 2001. To qualify for LRAD's entry-level grant of R20 000, the applicant must contribute a minimum of R5 000 in cash, kind or labour towards a sustainable farming enterprise. A maximum of R100 000 can be accessed if the beneficiary is able to contribute R400 000 in savings and loan finance (Ministry of Agriculture and Land Affairs, 2001:1). Early drafts of the LRAD sub-programme excluded equity-share schemes and focused on emerging farmers who would purchase and manage small farms of their own. Although the grants have again been extended to FWES, the concept of land reform through equity sharing is still widely debated. Originally recommended by McKenzie (1993), the first scheme was established in 1992 and its initial assessment was positive (Eckert *et al*, 1996). However, a more recent study undertaken by the Surplus People's Project argues that the schemes are simply a convenient way for commercial farmers to leverage cheap capital, increase productivity and eliminate strike action (Fast, 1999:1). This paper extends these earlier studies, paying particular attention to their opposing views and the extent to which concerns raised by the Surplus People's Project may have been addressed in more recent equity-sharing projects.

2. HISTORY OF FARM WORKER EQUITY-SHARING SCHEMES IN SOUTH AFRICA

Farm worker equity-sharing projects were initiated by the private sector in the

early 1990's. 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 divide the land into smaller units; for example, where the enterprise is indivisible due to technical, managerial or natural resource constraints (McKenzie, 1993:51).

Whitehall fruit farm in Elgin was the first to restructure as an equity-share scheme in 1992. The business plan projected financial success, reversing the farm's poor performance (Eckert *et al*, 1996:20). Unfortunately the project was severely affected by a slump in fruit prices, high interest rates and adverse production conditions during the latter half of the 1990's. Nevertheless, the Whitehall model has been extensively studied, modified and copied by numerous potentially successful projects involving wine, fruit, vegetables, olives, poultry, cut flowers, dairy and eco-tourism enterprises spread across all nine of South Africa's provinces. In 1998 it was estimated that around 50 farm worker 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 farm worker equity-share schemes (LCRF, 2001:3).

3. DATA SOURCES AND RESEARCH METHODOLOGY

In 1998 the Surplus Peoples' Project (SPP) - whose mission is "*to promote the rights and interests of the economically and politically marginalized in South Africa*" - conducted a study of four farm worker equity-share schemes namely, Hoogland Chickens, Ebukhosini, Whitehall and Warmwater, situated in the Western Cape and Mpumalanga provinces. The study attempted to find out if there was a difference between the 'advantages' of equity-share schemes as perceived by outsiders compared to how they were perceived by the farm workers. The SPP report (Fast, 1999:1-46)³ was surprisingly negative given the positive outcomes expected from the improved incentives that farm worker equity-share schemes offer to farm worker participants, although it should be noted that one of these projects was deliberately selected because it was experiencing financial problems.

In November 2001 a detailed study of eight farm worker equity-share schemes was undertaken to explore relationships between their institutional arrangements and their financial performance, outreach and empowerment. Established equity-sharing projects producing deciduous fruit, wine, citrus and vegetables were selected as case studies in the Lutzville, Elgin, Piketberg,

³ All references to the 1999 SPP report that follow are attributed to this author.

Stellenbosch, and Paarl regions of the Western Cape. The enterprises were chosen to ensure variation across a number of known indicators, such as use of external finance, size and gender composition of beneficiary group, proportion of equity owned by farm workers, and institutional arrangements such as the choice of legal entity and business organization. The sample was designed to control, where possible, for non-institutional determinants of financial performance such as enterprise type and geographic region. However, actual financial performance was not known *a priori*, and there was no deliberate attempt to select only successful projects as case studies. The final choice of projects was constrained mainly by the fact that few of the 21 farm worker equity-share schemes 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 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 examine institutional arrangements and their impact on internal rules, practices, management, compliance, incentives, and access to finance. Interviews with external financiers, local officials from the DLA and the firms contracted to help with project planning, training and facilitation were less structured and explored project-specific problems. The questionnaires often required respondents to rate their perception of a particular issue using a Likert-type scale with scores ranging from one to five (1=excellent; 2=good; 3=average, with room for improvement; 4=poor; 5=extremely poor). Trustees were requested to respond as representatives of the worker-shareholder group rather than providing their personal views. Only one consensus answer was recorded regardless of the number of Trustees interviewed (up to four) at each project. In the text, the terms "projects" and "Trustee respondents" are sometimes used interchangeably, *i.e.* 63% of Trustee respondents refers to five out of eight projects.

Table 1 provides a summary of the eight farm worker equity-share schemes used as case studies and some of their comparative characteristics, and shows that the eight case studies redistributed net farm assets amounting to almost R7m when measured in constant 2001 prices. This largely reflects the aggregate value of settlement/land acquisition grants awarded to participating workers. At three of the projects, the size of these grants (R15 000 and later R16 000 per beneficiary household) effectively limited the beneficiaries' joint shareholding to a small portion (3.5-6.0%) of total equity. Under the new LRAD sub-

programme, each beneficiary will qualify for a minimum grant of R20 000 and will be able to leverage larger grants (up to a maximum of R100 000 each) depending upon their own contributions. Although settlement/land acquisition grant beneficiaries are eligible for LRAD grants, priority will be given to first time applicants (Middleton, 2001). Levels of worker empowerment are therefore expected to improve on new farm worker equity-share schemes, and possibly on existing projects. Six of the farm worker equity-share schemes in the 2001 study had firm plans to transfer more shares to worker-shareholders over time.

Table 1: Comparative characteristics of farm worker equity-share schemes (FWES)

Name of FWES, Location, Registration date	Turn-over 2000/1 (Rands)	Main enterprises	Number of worker- share- holders	% female worker- share-holders	Workers' equity ¹ (%)		Workers equity - absolute value 2000/1 (Rands)	3 rd party investor/ lender?	DLA grant funding?
					(a)	(b)			
Project 1 Paarl 1997	15 000 000	Olives, Table grapes	34	59%	3.5% Trust		551 924	Yes	Yes
Project 2 Piketberg 2000	1 500 000	Stone fruit Pome fruit Proteas	66	52%	6% Company		902 220	Yes	Yes
Project 3 Piketberg 2000	850 000	Stone fruit Pome fruit Citrus	70	54%		49% ²	2 170 000	Yes	Yes
Project 4 Elgin 1998	3 100 000	Wine grapes Pome fruit	48	56%	5% Company		656 000	Yes	Yes
Project 5 Elgin 1996	120 000	Wine grapes Stone fruit Pome fruit	12	33%	17% Trust ⁵		228 382	No	Yes
Project 6 Piketberg 1997	3 500 000	Table grapes Wine grapes Citrus	36	39%	20% Trust		428 217	Yes	Yes
Project 7 Lutzville 2001	2 500 000	Wine grapes Vegetables	27	33%	40% Company		405 000	Yes	Pending
Project 8 Stellenbosch 2001	0 ³	Wine grapes	72	53%		50% ⁴	1 440 000	No	Yes

¹ (a) Equity in a single farm-owning and operating entity.

(b) Equity in separate land-owning and operating entity.

² Workers have a 49% share in both the land-holding co.mpany and the operating partnership.

³ Project began in 2001, vines planted in same year. No turnovers for 2000/1 as vines were not yet producing grapes.

⁴ Land is rented from the Stellenbosch Municipality. Shares are held in the operating partnership only.

⁵ Trust now to be registered as a company.

4. CHANGING PERCEPTIONS OF FARM WORKER EQUITY-SHARE SCHEMES

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

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

4.1 Establishment of the scheme

SPP reported that farm workers do not participate in decisions around the financial and legal arrangements of the farm worker equity-share schemes, do not join because they do not understand how the workers' Trust is supposed to work, that land reform and housing options are not fully explained, and that there are problems with the assessment of farm value and the financial viability of projects. The 2001 study⁴ showed that in the majority of cases (seven of the eight projects) the process of establishing an equity-share scheme involved in-depth workshopping with prospective beneficiaries to select an appropriate legal entity, to define the rules of their association and to discuss the project structure. At three of the eight schemes the potential beneficiaries, represented by a steering committee, had visited other schemes to speak to worker-shareholders or had invited them to workshops to share and learn from their experiences. At one scheme the workers had engaged the services of an

⁴ *Unless otherwise stated, all references to data relate to the 2001 study. To preserve confidentiality the names of people interviewed and the names of the farm worker equity-share schemes studied are not disclosed.*

accountant to help them understand the financial implications of the project and to advise them accordingly.

The SPP report stated that workers do not participate as shareholders because they do not understand how the workers' Trust is supposed to operate. To examine this concern the 2001 study tested respondents' knowledge and understanding of three dimensions of their project and workers' Trust, namely profit sharing, election procedures, and property rights, including the tradability of shares. Although interviews were conducted with Trustees and not with ordinary worker-shareholders, all of the respondents showed a clear understanding of how their scheme and the workers' Trust operated, and were able to answer virtually all of the questions posed to them on issues relating to these dimensions. Moreover, the respondents were - without exception - enthusiastic about participating in the farm worker equity-share scheme. At seven of the eight schemes all of the permanent farm workers had voluntarily become shareholders. At the remaining farm, six recently employed workers were not part of the scheme but had applied for LRAD grants to enable them to join once the grants were approved. Some of the Trustees interviewed stated that workers on neighbouring farms were often jealous of them being part of such a project and expressed the hope that they too may have a similar opportunity in the future.

The SPP reported problems with the assessment of farm net asset value and the financial viability of some projects. Six of the eight projects in the 2001 study were co-financed by a private lender or by New Farmers Development Company (an equity investor) and all eight projects had received DLA grant funding (Table 1). The presence of private finance indicates that a thorough financial analysis found the project to be creditworthy, as private lenders and investors bear risk. In addition, to obtain DLA grant funding, the business plan for the prospective equity-share project must also include a financial analysis of the farm. This covers the farm's financial records for the past five years, an analysis of the farm's strengths and weaknesses, and projections of farm income and costs over the next five years. The aim of the DLA appraisal is generally two-fold: to establish whether the purchase of equity in the farm presents a sound investment for the workers, and secondly to aid the DLA in their task of allocating scarce fiscal resources to beneficiaries that are able to deploy these resources profitably in the long term. Even so, farm worker equity-share schemes co-financed by the private sector the DLA jointly are more likely to succeed financially than are projects that attract only DLA funding, because private lenders and investors have a financial interest in the project's success. To address concerns about the assessment of net asset value and the financial viability, it seems prudent to suggest that DLA grant funding should not be awarded to a farm worker equity-share scheme unless it is co-

financed by a private investor, commercial bank or other reputable institution.

4.2 Beneficiary expectations

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

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

4.3 Power relations

Power relations between management and worker-shareholders had not changed on the projects examined by the SPP in 1998. In particular, workers' shareholding was not representative of their say in decision-making. Workers claimed that they were unable to influence financial or operational decisions and stated that there was a distinct lack of communication between management and worker-shareholders, especially with regard to financial reporting. In the 2001 study, Trustees interviewed at seven projects felt that

their say in the business was proportional to their shareholding, while those from the remaining project felt that their say was more than proportional. At all but one project these respondents believed that they could influence financial and operational decisions to some extent. Three-quarters of the Trustee respondents rated their part in the project's decision-making process as excellent or good, and a quarter rated it as average. The latter group suggested that with further training they could play a greater role in this process.

All of the worker-shareholders had received training in the interpretation of financial statements at five of the eight case studies. At the three remaining projects the chairperson of the workers' Trust had received extensive training, enabling him/her to pass on financial information to the other shareholders. At these projects only the chairperson had received training due to high levels of illiteracy on the farm. Lack of communication between management and worker-shareholders was not cited as a problem by any of the Trustee respondents in the 2001 study. Worker-shareholders and management met, on average, every 2-3 months.

4.4 Skills transfer

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

4.5 Labour relations

As reported by Eckert *et al*, (1996:20) one would expect the relationship between management and labour to improve with the implementation of a

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

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

4.6 The position of non-beneficiaries

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

4.7 Gender relations

The SPP report indicated that women did not participate as equals in the equity-share schemes studied. Women were excluded from many of the farm's more strenuous (and thus higher-paying) activities due to the work being too physically challenging; they were paid lower wages as they held less skilled positions; where DLA grants had been issued, the man of the household felt that he 'held' the share; and, in general, women did not participate in committee meetings. In summary, the SPP study concluded that women did not have equal status to men, and had not been empowered by the farm worker

equity-share scheme. The results of this study are far more positive. On 63% of the projects more than 50% of the worker-shareholders are women and these women are shareholders in their own name. Furthermore, in seven out of eight cases, the Trust Deed makes special provision for female Trustees.

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

4.8 Tenure security

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

On four of the eight farm worker equity-share schemes studied in 2001, workers lived in nearby towns or farms. At the remaining four projects, workers' tenure security is only as secure as their job. If workers leave voluntarily or involuntarily their residential rights are governed by the Labour Relations Act, Act 66 of 1955, by the Basic Conditions of Employment Act, Act 75 of 1997 (BCEA) and by the Extension of Security of Tenure Act, Act 62 of 1997 (ESTA). At one project, the workers' Trust has negotiated a deal that will

give each beneficiary a 99-year lease on their house, whether or not they are employed by, or retain shares in, the equity-share project (houses are currently under construction on the farm).

4.9 Issues of entry and exit

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

4.10 Other concerns

Fast's 1999 report for the SPP contended that farm worker equity-share schemes are management intensive operations and poor management decisions may therefore jeopardise the whole project. Whilst this is true of any project, the thorough analysis of creditworthiness performed by private lenders and investors - combined with the DLA screening process - reduces the likelihood of poor management. The SPP (Mason, 2001) feels that farm worker equity-share schemes are only an 'investment option' and are not a way of

empowering previously disadvantaged individuals or of redistributing land. However, equity sharing redistributes wealth (Table 1), as opposed to just land, and has the advantage of retaining or attracting the quality management needed to attract capital and to make full use of scarce resources. Table 1 shows the redistribution of wealth that occurred within the eight equity-share schemes studied in 2001. In total R6 781 743 was transferred to the farm worker-shareholders in these projects.

Unlike many other land reform projects, farm worker equity-share schemes offer beneficiaries and tax payers a potentially favourable return on their investment and an opportunity for beneficiaries to realise the value of that investment. Indeed equity-share schemes are an improvement on many other land reform projects in South Africa, particularly the group settlement projects that emerged under the settlement/land acquisition grant programme. These projects involved large groups of beneficiaries pooling their settlement/land acquisition grants to purchase whole commercial farms. The group established a legal entity, usually a Community Land Trust (CLT) or a Communal Property Association (CPA) that became the "private" owner of the property. Inadequate support of these beneficiary groups resulted in weak institutions. Pitout *et al* (1998:29-53) conducted case studies of selected CLT's showing poor accountability of executive members, collapse of the electoral process, and non-compliance with managerial decisions. Furthermore these schemes have not empowered women or met gender goals. In a study of settlement/land acquisition grant funded projects, Walker (2002) noted that although Trust committees often included some women, there was no explicit mechanism in the Trust deed to ensure that women continue to be elected as Trustees in the future. According to the National Land Committee (NLC), only 14% of beneficiaries listed under the settlement/land acquisition grant programme (up until August 2000) were female (Turner & Ibsen, 2000:12). This contrasts with the 2001 farm worker equity-share scheme case studies where the majority of shareholders were women at most projects. Lyne & Graham (2001) present empirical evidence in support of their argument that settlement/land acquisition grant projects converted commercial farms into open access resources. As a result the land has no market or collateral value, nor are there incentives for allocative efficiency, rent maximization, or the conservation and improvement of resources (Pitout *et al*, 1998:49).

A further concern raised by the SPP are the delays involved in the DLA process i.e. the time taken for the grant to be approved and paid out; insufficient follow-up once grants have been disbursed and inadequate assessment of proposed projects. When questioned about this, the DLA (Middleton, 2001) said that it would not be possible to conduct a more rigorous scrutiny of proposals and accelerate the grant allocation process at the same time, as these

represent two conflicting objectives. The process of allocating grants is a slow one as the DLA is applying more vigorous screening procedures to prevent situations where grants are used to prop-up highly indebted farms. However, if as suggested previously, DLA grants are only made available to those projects co-financed by private lenders or investors, the need for the DLA to conduct its own financial analyses could be eliminated. Instead the DLA could focus its attention on the outreach and empowerment aspects of proposed land reform projects.

5. CONCLUSIONS AND POLICY RECOMMENDATIONS

The two studies compared in this paper differ in their findings, with those from the SPP's study being largely negative and those from the 2001 study being largely positive. A number of factors might account for these differing results.

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

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

procedures.

While it appears that progress has been made in the design and implementation of equity-share schemes since the SPP report, the results of this study are inconclusive for two main reasons. First, it is possible that the worker representatives (trustees) who were interviewed might be more optimistic about the performance of their projects than the worker-shareholders. Second, this study did not present evidence of financial performance to corroborate the views of worker representatives and project managers. Even so, some unambiguous policy recommendations can be made.

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

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

Third, the DLA should consider extending its grants to regular but seasonal farm workers who wish to participate in established farm worker equity-share schemes. At present, only permanent employees are eligible for grants.

Farm worker equity-share schemes may never satisfy everyone's view of land reform, even when it is impractical to redistribute land to small owner-operators. Nevertheless, recent experience suggests that farm worker equity-share schemes represent a viable mode of redistributing wealth and de-racialising commercial agriculture. A second paper will compare performance measures, including scant financial indicators, with the institutional arrangements adopted by each case study in a bid to discern a mix of "best institutional practices" that will enhance the contribution of equity-sharing schemes to land reform in South Africa.

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