Evaluation of the financial performance of farm worker equity-share schemes with reference to Vuki Farm in the Overberg District Municipality of Western Cape.

A mini-dissertation submitted in partial fulfillment of the requirements for the degree of Master of Development.

By

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ABSTRACT

The struggle for land ownership in South Africa continues despite the successful democratic dispensation. Among other apartheid legacies, the new South Africa inherited a highly skewed land ownership pattern based on racial inequalities of the apartheid regimes stemming from the colonial era. The new government introduced a comprehensive land reform programme, aimed at a non-racial distribution of land. The land reform programme consists of three subprogrammes namely redistribution, restitution and land tenure reform. Equity - share schemes are types of land reform, through which previously disadvantaged and landless people can pool their resources to engage in agricultural and other land-related production activities with white commercial farmers, corporations or sectors of government. A critical question has centered on whether equity-share schemes can- and - do really result in redistribution of power and resources. Most of the research work already done on equity-share schemes focused much on investigating their social and political aspects, leaving much attention on their financial performance. This research investigated the financial performance of equity-share schemes using a recognized set of financial indicators. As an additional input to the research, the study investigated perceptions of the scheme's general performance based on empowerment of farm workers, gender equity, decision making or power relations and tenure security. A combination of both quantitative and qualitative methodologies was used to answer key questions of the study. These involved obtaining quantitative data from balance sheets and income statements as well as holding meetings with management committee and beneficiaries.

DECLARATION

I, Mapheto Monnamakwa Klaas, hereby declare that this report, submitted for my Master of Development, degree is an original work. This work is not a copy or a duplicate and it has never been submitted elsewhere for academic purposes. The sources used in the research were duly acknowledged.

Signature:…………………….

Signed on the ……… day of .... 2011at University of Limpopo.

DEDICATION

This work is dedicated to no one else but me for having spent sleepless nights and restless days searching and analyzing information needed for compilation of this comprehensive case study.

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ACRONYMS

ANC	African National Congress
BEE	Black Economic Empowerment
CPI	Consumer Price Index
DA	Democratic Alliance
DoA	Department of Agriculture
DRDLR	Department of Land Reform and Rural Development
DBSA	Development Bank of Southern Africa
EBIT	Earnings before Interest and Taxes
ESTA	Extension of Security of Tenure Act
FPI	Financial Performance Indicator
IDT	Independent Development Trust
LRAD	Land Redistribution for Agricultural Development
NP	National Party
ODM	Overberg District Municipality
PDI	Previously Disadvantaged Individuals
PLAAS	Programme for Land and Agrarian Studies
RDP	Reconstruction and Development Programme
RSA	Republic of South Africa
SLAG	Settlement Land Acquisition Grant
SSA	Statistics South Africa
TIE	Times Interest Earned
TKW	Theewaterskloof
UL	University of Limpopo
UWC	University of Western Cap
WBWS	Willing Buyer Willing Seller
WC	Western Cape

CHAPTER 1: BACKGROUND TO THE RESEARCH

1.1. **Formulation of the research problem.**

The Republic of South Africa (RSA) is one of the many developing countries where land and agrarian transformation has become a mammoth task if not a challenging one. The country has inherited a racially skewed land distribution from the apartheid policies stemming from the colonial error. Under these policies the majority of black citizens were cut off from the mainstream agrarian economy and driven into areas previously known as homelands, constituting only thirteen percent of the total size of the country, as against more than eighty percent, of previously white owned areas. This magnitude of inequality therefore qualifies the majority of legal, law abiding and natural citizens of South African to be regarded as landless citizens. Economic activities like agriculture, industry and services, are possible on land. Agriculture in the black rural sector is characterized by poor performance in financial terms. Landlessness is always associated with powerlessness. As a way of redressing the racial imbalances, and through its land reform programme, the new government aims to redistribute thirty percent of agricultural land to previously disadvantaged citizens of South Africa by the year twenty fourteen (DRDLA, 2005). Among the rural people hit by the wave of poverty, farm workers are the most affected (DRDLA, 1997). The programme of land reform itself operates on three sub-programmes namely, land redistribution, land restitution and land tenure reform (RDLR, 2004). Joint Ventures (JVs) are some of the tools by which the government aims to facilitate Land Redistribution for Agricultural Development (LRAD). In JVs, black people who have land rights or who are land reform beneficiaries engage in joint agricultural or other land-related production with white commercial farmers, corporations or sectors of government (Mayson, 2004). Mayson identifies five types of JVs namely, contract or out-grower farming, share equity schemes, municipality schemes, sharecropping or share-produce arrangements and company-supported schemes.

Farm worker equity-share schemes in South Africa were introduced with the specific purpose to empower farm workers and to encourage them to participate in management of farm business enterprises. South Africans, government and the private sector initiated equity-share schemes, which were originally aimed at empowering farm workers by becoming shareholders in a farming enterprise while still continuing to earn income from the farm as workers. Farm worker equity-share transactions happened mostly in the Western Cape, the location of our case study and where agricultural land is of high value and somewhat difficult to obtain. Most of farm worker equity-share transactions were initiated by businesses to obtain additional capital for farming business. Although most of the studies done on performance of these schemes focused only on the socio-economic criteria, most of equity-share schemes in the agricultural sector are not meeting their targets as stated in business plans when they are submitted for funding. Despite the poor performance, government is still continuing the funding of equity schemes as proposals are being submitted. As part of monitoring and evaluation, both the Department of Agriculture (DoA) and Department of Rural Development and Land Reform (RDLR) are mandated to carry out periodic financial assessment of these schemes to determine their financial performance. None of the studies already undertaken on these schemes were commissioned by the Western Cape Department of Agriculture. The proposed study is aimed at conducting financial ratio analysis on the case study to evaluate its financial performance and exploring perceptions of beneficiaries of the scheme on its general performance.

1.2. Aims and objectives of the research

Broadly, the ultimate aim of the study was determining the financial performance of the case study Vuki Farm, an equity in the Overberg District Municipality, to explore the extent to which the scheme has or not yet achieved financial benefits for beneficiaries of land reform. Specifically, the study sought to attain the following objectives:

- Review and synthesis of the relevant literature on equity-share schemes.
- Collection of financial data on the case study to determine its financial performance and exploration of perceptions of the schemes beneficiaries on the general performance of the scheme in relation to:
    - Wealth distribution
    - Economic empowerment
    - Gender equity
    - Power relations or decision making and
    - Security of tenure

- Preparation of a report on findings, conclusions and recommendations to government policy makers, monitoring and evaluation staff of the Department of Agriculture and administrators.

1.3.Research questions.

- How is the farm worker equity-share scheme financially performing?
- What is the impact of the scheme on wealth distribution for beneficiaries?
- What is the impact of the scheme on empowerment for farm workers?
- What is the impact of the scheme on gender equity for farm workers?
- What is the impact of the scheme on decision making for farm workers?
- What is the impact of the scheme on tenure security for farm workers?
-

1.4. Significance of the study.

According to Knight et al (2004), there is currently insufficient knowledge about the performance of farm worker equity schemes and most of the already done excluded financial performance. Mayson (2001) realized that although the Department of Rural Development and Land Reform played a significant role in funding and implementation of equity schemes, there is still little knowledge about these schemes specifically in areas of financial performance and statistical information. Apart from the general contribution to the body of research and knowledge already existing on the performance of agricultural equity-share schemes and closing of information gaps in that area, this study specifically highlighted problem areas in the performance of equity-share schemes and recommend a set of financial criteria to be used in measuring performance of these schemes. Recommendations of the study will serve as guiding principles for land reform policy-makers, monitoring and evaluation officials and project management teams when implementing agricultural equity-share schemes. The study will serve as a reference point for other researchers as well as a prompting of further investigation and / or verification of findings.

1.5. Limitations of the study

Firstly, the study aimed at including asset management ratios, inventory turnover, average collection point, fixed asset turnover, asset turnover and inventory turnover but because financial statements did not include inventory figures, the above asset management ratios were excluded from the our analysis. Since there were comparisons, average collection period was also deemed irrelevant for this kind analysis. Quick (acid test) ratio was also excluded for lack of figures on inventory. Secondly, the study initially aimed at evaluating farm workers perceptions by conducting open interviews with the workers as beneficiaries of the scheme but as it became apparent that due to harvesting workers were not available for interviews, interviews meetings were held only with management and worker representatives. Financial information available for this analysis was only for four years, which is not long enough to draw valid conclusions on financial performance of an agricultural enterprise. Lastly, the study aimed at evaluating financial statements from both Vuki Farming (Pty) Ltd. However, after realizing income figures were not included in Vuki Trust, analysis was done only on Vuki Farming (Pty) Ltd.

1.6. Dissertation outline.

Chapter One outlines and introduces the context and circumstances in which the study was done. It contains detailed background information on the research problem, questions of the study and how they were to be answered, study objectives, significance and limitations of the research.

Chapter Two deals with the origin of inequality in land distribution in South Africa, citing lessons learned from the historical land dispossessions. It looked at the advantages and disadvantages of the Willing Buyer Willing Seller and market related land reform, an event that led to the formation of joint ventures to curb the ever-increasing prices of land.

Chapter Three introduces equity-share schemes within the context of land reform and reviewes relevant policies on land reform, different criteria used to evaluate equity-share schemes and guidelines on analysis of financial statements.

Chapter Four describes the case study area, starting from the Western Cape province through to Overberg District Municipality and giving a detailed background on Vuki Farming.

Chapter Five restates and emphasis the research objectives, and then introduces and describe the design and methodologies applied in conducting the research as well as the rationale behind choosing them.

Chapter Six deals with research findings, by presenting the scheme's financial data and results from calculating financial ratios. It also gives an overview of perceptions by its beneficiaries on the general performance of the scheme.

Chapter Seven concludes and makes recommendations on the financial performance and perceptions of farm workers on the general performance of the scheme on wealth distribution, empowerment, gender equity, decision making and tenure reform.

CHAPTER 2: LITERATURE REVIEW

2.1. Historical background of land dispossessions in South Africa

Land dispossession in South Africa dates back to the colonial era, more than four hundred years ago, when Khoekhoe herders came into first contact with European seafarers at the cape (Morris, 2004). In 1652, European settlers, under the leadership of Jan van Reibeeck, settled at the Cape peninsular to establish a half way station travelling to the east. As Morris writes, one of the herders stood suddenly, pointing out beyond the surf, the horizon. Others soon caught sight of what he saw and started hard, too. This milestone laid a foundation for colonialism in South Africa but tracing the history of colonialism back to the establishment of the Dutch East Indian Company in 1602, one is tempted to say that the current disparity in land ownership in South Africa was accidental and not natural (Keegan, 1998). The Dutch East Indian Company, also known as VOC was set up when a group of Dutch merchants and independent trading companies became impatient with Portuguese monopoly that prevailed over their spice trade with East Asia at the end of the fifteenth century. The DEIC was given a government mandate in which, apart from the right to spice trade monopoly, it was empowered to colonize every country it desired and enslaving indigenous people according to market requirements. In 1649 the DEIC passed a resolution to establish a refreshment station at the Cape of Good Hope for ships passing it en route to the lands of tea and spices, targeting the fertile soils at the foot of Table Mountain and shores of Table Bay. This was set up in 1652 by a group of men headed by Jan van Reibeeck. The "friendliness" of the indigenous pastoralists, who would supply fresh meat was likewise extolled. Hence in 1652 the VOC sent a group of Dutchmen under the command of Jan van Riebeeck to set up a refreshment station and to provide facilities for the crew who had fallen ill to diseases such as scurvy on the long journeys between Holland and East Asia. The Khoe people were original inhabitants of the Cape Peninsula prior to colonialism. An estimated six thousand Khoe population, made up of different small clans, scattered over the peninsular and shared the available land resources amongst each other but moved around periodically as nomads. Initially Khoe people accepted to do livestock trade with the settlers, who wanted to supply their passing crews with fresh produce but, later, the relationship soured, making it impossible for any trade to continue. After establishing a colony, Jan van Riebeeck started to

Box 2 South Africa: constitutional clauses relating to land reform.

The state must take reasonable legislative and other measures, within its available resources, to foster conditions, which enable citizens to gain access to land on an equitable basis. A person or community whose tenure of land is legally insecure as a result of past racially discriminatory laws or practices is entitled to the extent provided by an Act of Parliament, either to tenure which is legally secure or to comparable redress. A person or community dispossessed of property after 19 June 1913 as a result of racially discriminatory laws or practices is entitled to the extent provided by an Act of Parliament, either to restitution of that property or to equitable redress. Source: Section 25, Chapter 2, Bill of Rights, Act 108 of 1996

Source: Constitution of South Africa, 1994.

Consequently, the South African land reform programme has three key elements aimed at acquiring land for redistribution to previously marginalized citizens, namely land redistribution, land restitution and land tenure reform (Department of Rural Development and Land Reform, 1997). The following table summarizes the South African land reform delivery and performance of land by pillar.

Table 1: South African land delivery, 1994 to 2005

PROGRAMME	HECTARES TRANSFERRED	% DELIVERY PER PROGRAMME
Restitution	916 470	28%
Redistribution	1 347 943	43%
Tenure reform	100 175	4%
State land disposal	772 626	25%
Total	3 137 213	100%

Source: DRDLR, 2005

2.4.1. Land redistribution

The 1913 and subsequent land restriction acts of apartheid government confined the majority of population to only 13 percent of the total land. According to Section 25 (5) of the Constitution, "the state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to access land on an equitable basis" (RSA, 1996). The new democratic government introduced land redistribution, which is aimed at redistributing land to the previously disenfranchised people, mainly for agricultural development but for other productive purposes such as industry and services as well. Through this sub-programme, people regarded as Previously Disadvantaged Individuals may, individually or in a group, apply for three basic grants. Land Redistribution was implemented basically in two forms namely Settlement and Land Acquisition Grants (SLAG) and Land Redistribution for Agricultural Development (LRAD). Both were made possible through provision of grants to previously marginalized households for acquiring land for farming or other productive purposes. LRAD grant is flexible, in that the funds may be used for individual or group settlement, commonage schemes or share equity schemes. Between 1994 and 2000 the government offered a R15 000 Settlement Land Acquisition Grant (SLAG), which was later increased to R16 000, to households who wished to purchase land on the market.

Box 3: Sources of land for redistribution in South Africa.

• government land held by the DRDLR, of which about 800,000 ha could be available for redistribution, including the ex-South African Development Trust land, which lies outside the geographical boundaries of the former homelands;
• private land, which can be acquired for redistribution on a Willing-Buyer-Willing-Seller basis.

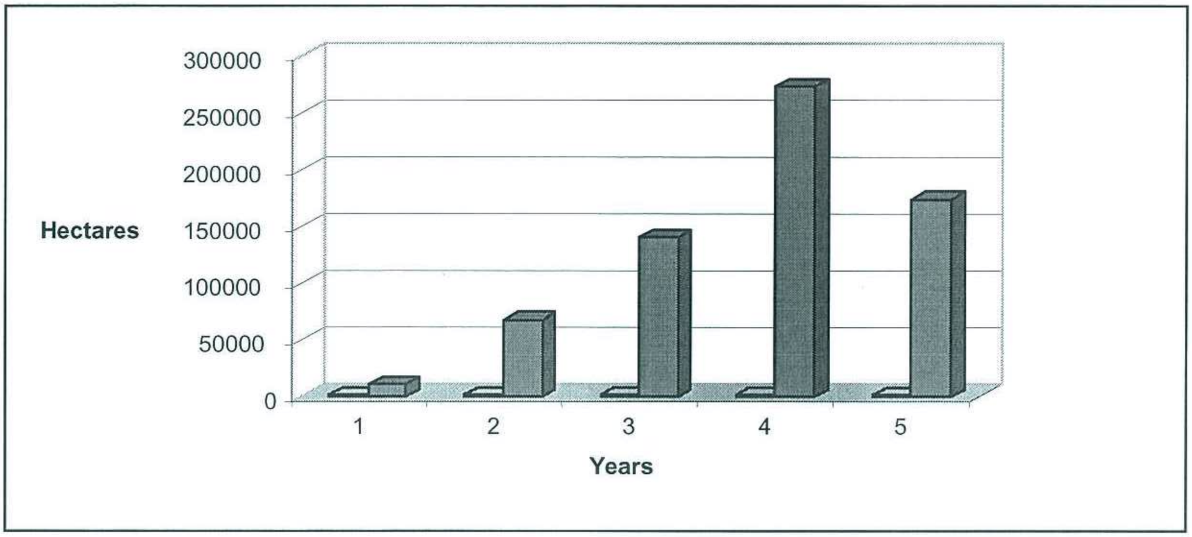
Source: Department of Rural Development and Land Reform.

According to the Department of Rural Development and Land Reform (2007), there are only two sources of land for redistribution, namely, government land held by DRDLR (about 800 000 ha), including the ex-South African Development Trust land lying outside the geographical boundaries of the former homelands and private land available on the Willing-Buyer, Willing-Seller basis, which forms the bulk of the land to be redistributed. However, as Adams Howel noted (2001), the scope for the redistribution of state land is not a simple task. As he argued, "Much of the land is already used and occupied by people protected under tenure laws. Likewise, state land, which lies close to or within the former homelands (excluding state land held in trust for communities), is the subject of competing claims by traditional leaders and their followers, former employees of the parastatals and farmers already allocated land on the schemes".

From 1998 to 1999 the DRDLR conducted a review of SLAG policy and found weaknesses in its implementation and the quality of projects funded. When Minister Didiza was appointed in 1999, she immediately condemned the state of land reform at the time by putting a moratorium on SLAG projects. This is by Deininger et al (1999), who argued the results of land redistribution were disappointing and fell short of stated government goals. Studies found that in the province of Kwazulu – Natal less than 0.5 percent of land was transferred to landless households by 2001 (Lyne and Darrch, 2001 cited in Knight 2004).

Despite the government's five year objective of redistributing 30% of land to previously disadvantaged communities, the first five years were marked by a very slow pace in actual redistribution. As a result less than 1% of land had been redistributed from 1995 to 1999 and the rate actually declined from 1998 to 1999 (Figure 3).

Figure 2: The rate of land redistribution through SLAG in South Africa from 1995 to 1999.



Source: Department of Rural Development and Land Reform.

Through SLAG, only poor people were mainly considered for access of land to practice subsistence farming. In 2000, following several policy amendments, SLAG was overtaken by LRAD, that removed an obstacle preventing not-so-poor people to access land but making grants available for those who are able to access funding through own contribution. However, today LRAD has only as benefited commercial farmers through equity-share schemes. According to DRDLR (2007) land redistribution, ranked at 43% and outperformed all the other land reform pillars by redistributing 1 347 943 hectares to previously disadvantaged individuals and communities in the ten years from 1994 to 2005.

2.4.2. Land restitution.

Land restitution aims at restoring land and providing compensation to individuals and groups disposed of land as a result of the 1913 Natives Land Act. Section 25 (7) of the Constitution states that "a person or community dispossessed of land or property after 19 June 1913 as a result of the racially discriminatory laws or practices is entitled, to the extent provided by an Act of Parliament either to restitution of that property or to equitable redress" (RSA, 1996).

allocate some of his men land to produce for the increasing demand of fresh fruit, vegetables and meat, thereby forcing the Khoe people out of the land they had occupied for centuries. As Morris noted (Morris, 2004) the Khoe's land was taken from under their noses and some began to take action by steeling settlers' livestock to make life difficult for them. This led to an increase in competition for land and labor and ended in the eruption of war between settlers and the Khoekhoe. Some Khoe clans fled into the interior higher grounds while others chose to remain as workers for the Boers. The settles then continued to appropriate more and more land that belonged to the Khoe and expanded further into interiors of the country. Eventually, as Keegan (1996) noted, by the mid-nineteenth century Boers pastoralist had been expanding into the interiors of South Africa, displacing and incorporating indigenous people as labor.

2.2. Legislation, the rise and fall of former homelands (RSA)

Beneficiaries of the South African land reform, mostly referred to as Previously Disadvantaged People, are mainly inhabitants of the former homelands, also known as Bantustans, but also people living in and around white commercial farms. Prior to 1910, land distribution in the country was guided by the Glen Grey Act. This act was promulgated in 1894 to do away with communal land rights and introduce limited individual tenure, forcing Africans to become less independent in relation to the colonial cash economy. Another milestone was set in 1913, by the introduction of Natives Land Act No. 27 of 1993. This act set out provisions for establishment of African land reserves by putting aside eight percent of the country's total land for exclusive use and development by Africans. These were areas from which mine-workers and urban labor force was to be drawn. Furthermore, the act provided for elimination of tenant farming and sharecropping on white farms by African farmers. This act was complemented in 1936 by the introduction of the Development of Trust Land Act No. 18, which extended the natives land reserves from 8% to 13%, making the total land ownership of white people to stand at 87%.

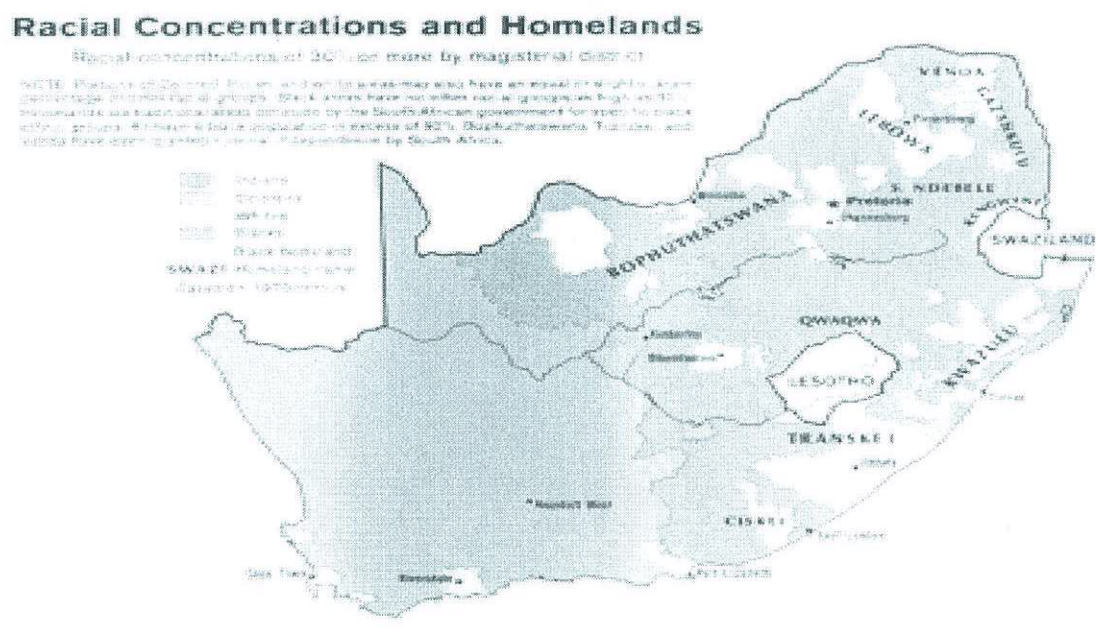
Box 1: Major legislative developments that influenced land ownership in South Africa.

Natives Land Act No. 27 of 1913: Land deemed to be traditionally black was identified and reserved for exclusive use and occupation by black groups. This land constituted 8% of the total size of South Africa. Development and Trust Land Act No. 18 of 1936: An extension of the natives land from 8% to 13% and introduction of the concept of trust land. The remaining 87% of the total land of the country was reserved for whit occupation. Group Areas Act No. 36 of 1950: Provided for the undertaking of forced removals to settle communities in areas designated for their race groups. Abolition of Racially Based Land Measures Act No. 108 of 1991: Repealed a number of statutes requiring land rights based on racial classification.

Source: www.dla.gov.za, 2007

Black South Africans were driven into small fragments of land in some parts of the country, which were later known as black homelands

Fig.1: Former Black homelands in South Africa



Source: www.southafricanhomelands.org.

2.3. Agriculture in the former homelands.

Despite covering only 13% of the total land of South Africa, the former homelands were home to 87% of the country's total population (RDP, 2004). The majority of these people was black and depended on either subsistence farming or providing labor for white farms while other citizens worked in the mines and industries as migrant workers to provide a source of livelihood for their families. The South African agriculture was then characterized by existence of sub-sectoral dualism, namely, the well-developed white commercial sub-sector and the predominantly subsistence-oriented and less developed sub-sector, with striking differences (LARP, 2007). Commercial farmers enjoyed access to a wide range of modern services and information while their black counterparts were isolated to remote and underserviced rural areas with inadequate infrastructure and service. Unlike the subsistence sub-sector, the commercial sub-sector was heavily subsidized and financially assisted. Whereas the commercial farmers were organized in co-operative and other formations, subsistence farmers were less poorly organized and less represented in key public and policymaking processes. As a result commercial farmers were much favored by policies which were biased and discriminatory against subsistence farmers. These conditions led to a situation where the subsistence sub-sector was characterized by high unemployment, poverty, hunger and dependency on social grants which, according to Mbinda (2003) were introduced by the nationalist party to further its political agenda.

Farm workers and land dispossession are indispensable twin-evils of colonialism and land reform. Dispossessors didn't do manual work on the land themselves. They had to incorporate the traditional owners of the land as farm labors.

2.4. Post-apartheid land reform in South Africa.

The above situation led to a much skewed land distribution based on racial differences in South Africa. According to Knight et al (2004) by the beginning of 1990, an estimated 12 million black people occupied only 17.1 million hectares of land while 60 000 white commercial farms occupied 86.2 million hectares of land. The need for political stability and economic growth necessitated a meaningful change in land distribution in South Africa within the agricultural sector. In 1994, after the democratic elections, the new government under ANC inherited the skewed land distribution, where whites owned 87 and blacks only 13 percent of the agricultural land. It became a national priory to reverse the apartheid's unequal land distribution while ensuring a continued productive use of agricultural land, which was to be transferred to Previously Disadvantaged Individuals (PDI), mainly blacks, women and young South Africans. Whereas the apartheid era inequalities in land distribution were based on the 1913 and subsequent acts (Table 1), the current land reform policies are based on the constitution of the South Africa's non-racial democratic government and the following policy documents, which provided a framework for an orderly land and agrarian reform (DoA, 2007).

- The Reconstruction and Development Programme (RDP), that resulted from recommendations from the World Bank and contributions from a number of political activists nationally and across the world. The RDP became the ANC's national manifesto for 1994 elections. The RDP aimed to redistribute 30% of state land to previously disadvantaged and landless people of South Africa (ANC, 1994).
- The Growth, Employment and Redistribution Strategy aimed at attaining a sustainable economic growth and development through agricultural development (GEAR, 1995)
- The AgriBEE obtained stakeholder commitment in the transformation of the agricultural sector (AgriBEE, 2005).
- Settlement and Land Acquisition Grant provided a funding mechanism through which land would be redistributed to previously disadvantaged citizens of South Africa (SLAG, 2000).
- Proactive Land Acquisition Strategy, which came as a result of the 2005 Land Summit, was aimed to fast-track the process of land redistribution after government stake holders realized that slow pace of land reform will not enable the government to meet the 30% target (DRDLR, 2007).

It is not clear why eligibility for restitution excluded cases of dispossessions dating before 19 June 1913 because some authors like Klug (1996) argue that actual land dispossessions has been taking place for almost 200 years before 1913 Natives Land Act. Land reform through restitution can take several forms, including: restoration of the land from which claimants were dispossessed, provision of alternative land, and payment of compensation, alternative relieve comprising a combination of the above or priority access to government housing and land development programmes (DRDLR, 2007).

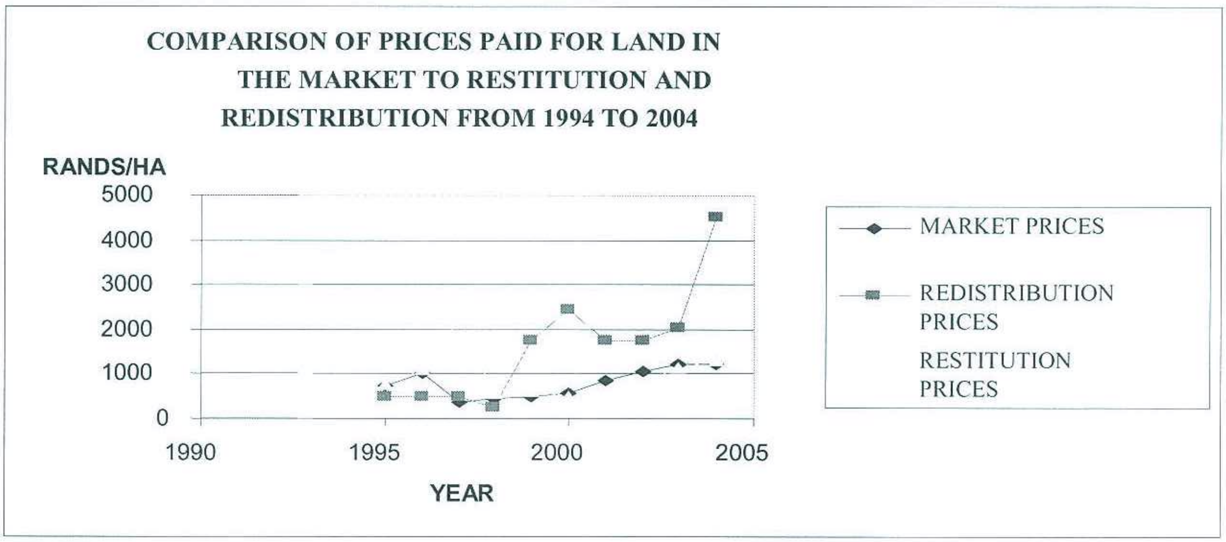
2.4.3. Land tenure reform.

Land tenure reform, which is guided by RDP objectives, is aimed at providing security of land tenure to all South Africans (ANC, 1994). The previous apartheid government was known for, among other things, evictions, threatened evictions and interference with rights of the indigenous people. Indigenous people used to work on the farms for their whole lives but not allowed to retire there or were even denied burial rights. Some workers were allowed to work and stay on farms but without their families. According to Section 25 (6), "a person or community whose tenure of land is legally insecure as a result of past racially discriminatory laws or practices is entitled, to the extent provided by an act of Parliament, either tenure which is legally secure or to comparable redress" (RSA, 1996). Land tenure reform is the least performing land reform pillar (4%), with only 100 174 hectares of land transferred to eligible households from 1994 to 2005 (DRDLR, 2007). Section 26 (3) of the Constitution of South Africa provides that "no one may be evicted from their home or have their home demolished, without an order of court made after considering all the relevant circumstances. No legislation may permit arbitrary evictions" (RAS, 1996). Despite this, studies conducted in Kwazulu – Natal Land Legal Cluster Project suggests that out of the 1034 eviction related cases, 73 were of actual eviction, 419 of threatened eviction and 272 of interference with land tenure rights.

2.4. South Africa's market based land reform and the WBWS principle

The South African land reform process I subject to all the market forces and the Willing Buyer Willing Seller principle. In general, the WBWS principle means a voluntary transaction between the buyer and the seller has to drive the process of land transferring land to the previously disadvantaged landless citizens (DRDLR, 1997). Specifically, what the WBWS implies is that in terms of restitution implies that the government is not legally bound to the process of land redistribution and does it only as a willing party.

Figure 3: Comparison of prices paid for land in the market to restitution and redistribution from 1994 to 2004.



Source: Department of Rural Development and Land Reform, 2007.

2.5. Budgetary constraints to South Africa's land reform programme

Among other constraints to South Africa's current land reform programme is financial constraint. For the country to transfer the targeted 21,4 million hectares (30%) of land by 2015, the country requires a total of 94.02 billion rand. In terms of the medium term expenditure framework, there is a budget shortfall of 71.52 billion rand required to deliver the current land reform target (DRDLR, 2009). The numbers in the table below ihclude budget require for project implementation and remuneration of employees.

Table 2: Land Reform budget requirements.

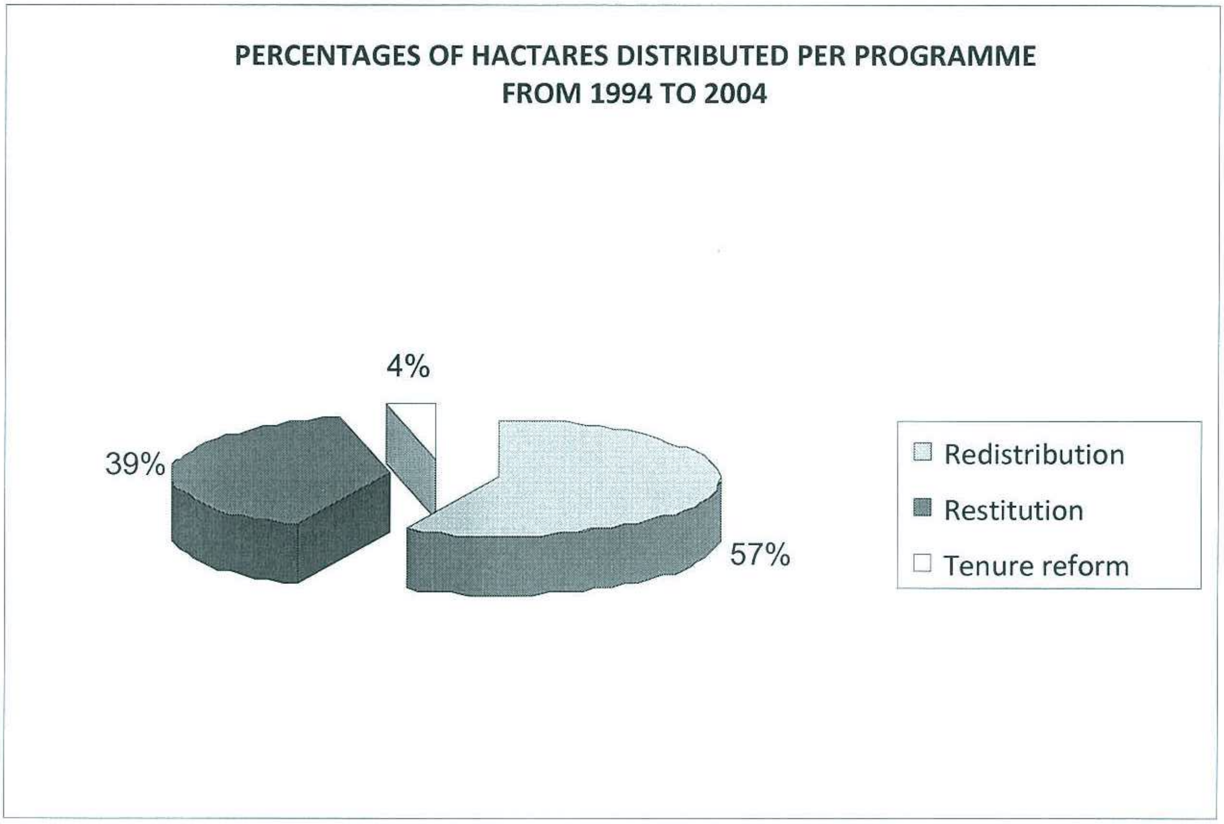
YEAR	TARGET HA	REQUIRED FUNDING	CURRENT BASELINE	SHORTFALL
2008/9	1500000	4.941bn	2.616bn	2.325bn
2009/10	2800000	10.128bn	3.308bn	6.82bn
2010/11	3800000	15.09bn	3.789bn	11.301bn
2011/12	4419000	19.231bn	4.016bn	15.215bn
2012/13	4600000	22.025bn	4.257bn	17.768bn
2013/15	4300000	22.606bn	4.512bn	18.094bn
TOTAL	21419000	94.021bn	22.498bn	71.523bn

Source: DRDLR's medium term expenditure framework, 2009.

2.6. South Africa's delivery of land reform from 1994 to 2004.

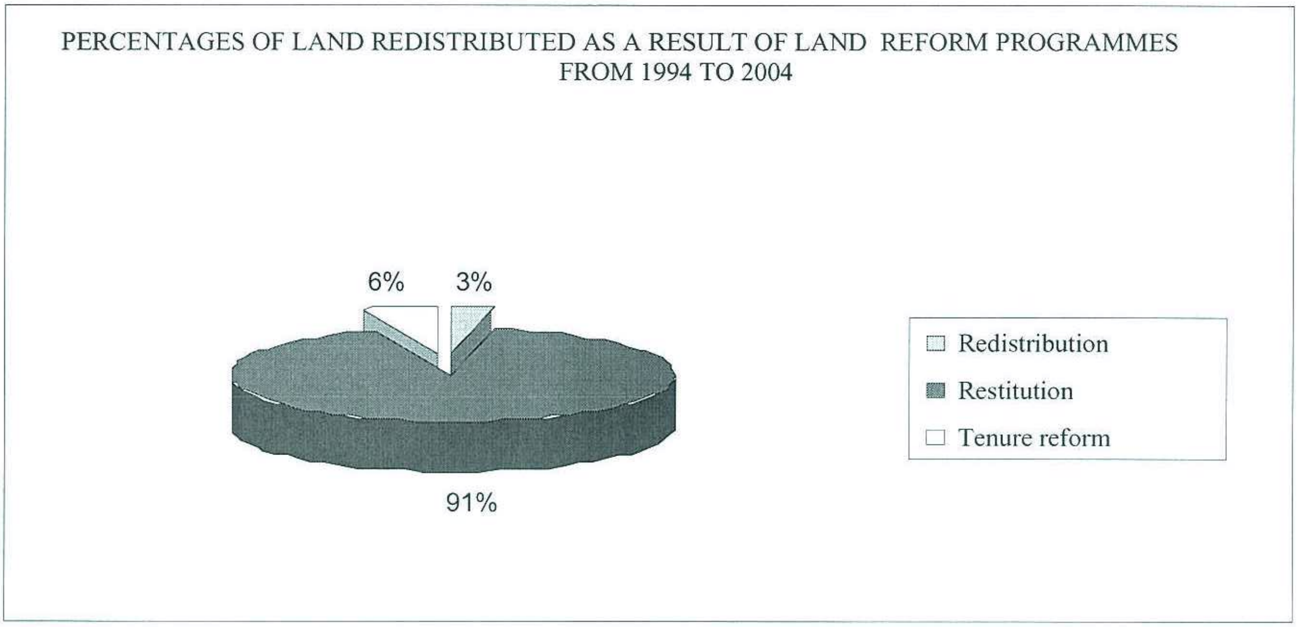
According to the Department of Rural Development and Land Reform (2007) a total of 2 433 land reform projects were implemented since 2004. Out of these, 2 287 000 hectares were transferred to 850 600 beneficiaries and 225 000 households from 1994 to 2004, either through redistribution, restitution or tenure reform. Although restitution benefitted more in terms of beneficiaries, more land was transferred through redistribution than any other sub-programme.

Figure 4 (a): South Africa's land delivery since 1994



Source: Department of Rural Development and Land Reform, 2007.

Figure 4 (b): South Africa's land delivery since 1994.



Source: Department of Rural Development and Land Reform, 2007

2.7. Joint Ventures (JVs)

Tom (2006) defined a Joint Venture (JV) as a strategic alliance between two or more parties with the aim of undertaking specific economic or business activity. Nationwide, the government is encouraging joint ventures in different economic sectors through its BEE policies. The DRDLR (2007) encourages poor, previously disadvantaged people to form joint ventures or strategic partnerships with commercial farmers to curb the ever escalating costs of transferring land. Through these joint ventures, beneficiaries of land reform, mostly farm workers, can be assisted to access grants to buy shares in operating agricultural enterprises. The DRDLR permits joint venture initiatives by the private sector and provide funding to land reform beneficiaries (DRDLR, 1997). However, since most of joint ventures are initiated and managed by the private sector, government departments play a very limited role in joint ventures.

According to Mayson (2004), there are five types of joint ventures, namely contract or out-grower farming, share-equity schemes, municipal commonage schemes, share cropping and company-supported schemes.

- To begin with, contract farming is an agreement made between land reform beneficiaries and a processing or marketing firm, where beneficiaries undertake to supply the firm with specified quantities of products while receiving support in the form of credit, technical advice and inputs provided by the firm. Contract farming is still practiced in province that incorporated former homelands where communal land is easy to acquire and credit is scarce. Since the new farmer is given instructions and support from the firm, this type of farming is still considered a viable one. However, as Mayson (2003) noticed, it tends to be less profitable once the processing and marketing companies withdraw from the arrangements.
- In equity-share schemes an arrangement is made for farm workers to purchase shares in a company they are working for, and become both owners and workers of the farm. These are arranged in such a way that the owner of a farming enterprise offer a percentage of the farm to the farm workers for sale in return for share of dividends (Tom, 2006). According to Mayson (2003) equity-share schemes have a high potential for generating income for participants through dividends pay out and growth in assets but they don't normally give shareholders security of tenure, decision making and employment equity because of the continued control of the farm by the owner.
- In municipal commonage, municipalities provide land to qualifying land reform beneficiaries to engage in agricultural production (crop and livestock). Mostly commonage land is offered with very minimal lease arrangements which are renewable over five or more years.
- In sharecropping an arrangement is made between the landowner and tenant, where a tenant undertakes to pay a rent and a percentage share of the crop to the landowner in return for the landowner's permission to till the land. This form of joint venture was very common during the reign of colonialism before it was outlawed by the Native Land Act 27 of 1913 (Keegan, 1998 and Bundy 1988).
- Lastly, company-supported schemes, which are merely corporate social responsibility initiatives by companies and non profit organizations. Normally, a company operating in the vicinity of a community assists a group of small-scale farmers to access land, infrastructure and production inputs for livelihood purposes, and which, are used as strategic advertising and marketing tools (Mayson, 2003).

In all the above joint ventures, the government only plays a facilitating role as most of them are initiated and maintained by the private sector.

CHAPTER THREE: EQUITY – SHARE SCHEMES

3.1. A review of the equity-share schemes

An equity-share scheme can be defined as an arrangement where both land reform beneficiaries and private sector partners purchase equity in the form of shares in a land-based enterprise (DRDLR, 2007). Participants receive returns in the form of dividends and capital growth. According to the Department of rural development and Land Reform, original aims and objectives of equity-share schemes were to improve the living conditions of participants, mostly farm workers, through dividends and capital growth, increased job security, improved tenure security and economic empowerment. In terms of the Provisions of Land and Assistance Act no. 126 of 1993, beneficiaries can acquire equity in an existing agricultural enterprise. Furthermore, the Grant and Services document stipulates that LRAD grant can be used to acquire equity in an agricultural enterprise as long as security of tenure is guaranteed (DRDLR). Equity–share schemes were introduced mainly to meet the following objectives:

- Improving the living conditions of participants through dividends and capital growth received from shares, job security and improved tenure security.
- Empowerment and advancement of beneficiaries through participation in management decisions; increase in number and value of shares over time and increased commercial farming skills.
- Supporting economic growth through restructuring of the agricultural sector, employment opportunities and improving labour productivity in the agricultural sector.

Specifically, farm worker equity-share schemes in South Africa were introduced with the purpose to empower farm workers and to encourage them to participate in management of farm business enterprises. The Department of Rural Development and Land Reform provides funding in the form of Land Redistribution for Agricultural Development, through which equity-share schemes can be funded (DRDLR, 2007). LRAD criteria are used to assess applicants of agriculture related equity-share schemes, which include previously disadvantaged communities, landless people, farm workers and their families as well as labour tenants and their families (DRDLR, 2007). Government and the private sector initiated equity-share schemes, which were also aimed at empowering farm workers by becoming shareholders in a farming enterprise while still continuing to earn income from the farm as workers. Farm worker equity-share transactions happened mostly in the Western Cape, the location of our case study and where agricultural land is of high value and somewhat difficult to obtain. Most of farm worker equity-share transactions were initiated by businesses to obtain additional capital for farming business. Normally, to purchase equity in an enterprise a company would raise capital via equity in the form of share capital, consisting of normal or preference shares. Land reform beneficiaries would form a legal entity to purchase issued shares based on the equity portion (DRDLR, 2007).

Table 3: Project cycle for equity-share schemes

Action	Responsibility	Steps
1 Project application	Provincial Department of Land Affairs (PDLA)	Application submitted to PDLA
		Information meeting arranged with community to inform about Equity Schemes
		Scrutinise motivation for project
		If initial assessment of project is positive, release funds for financial viability study
2 Project Implementation Reports	PDLA	Submit Project Implementation Reprts for initial project approval and release of planning funds based on initial positive financial information
3 Project team (if applicable depending on nature of project)	PDLA	Appoint project team consisting of PDLA, PDA, other government departments/role-players
4 Project Planning	PDLA to manage.	Complete financial assessment of enterprise and business plan
		Determine project structure / share holding and legal entities required and draft documents
		Undertake valuation of enterprise
		Determine type of security of accommodation and prepare documentation

		Ensure transfer of skills plan and employment equity plan in place
		Source additional financing where applicable
		Provide training and facilitation to community
5 Project appraisal and transfer	Minister	Submit for Ministerial approval
		Prepare transfer of funds
6 Project implementation	Project participants	Ensure project implementation in terms of business plan
7 Monitoring and evaluation (M&E)	Directorate: M&E	Ongoing monitoring of project implementation

Source: Department of Rural Development and Land Reform, 2007

Equity-share schemes benefitted most of workers in the fruit and vine sector through the formation of partnerships with commercial farmers in return for a share of ownership in the agricultural company.

3.2. Previous research work on equity-share schemes.

According to McKenzie (1993), equity-share schemes are very good ways of avoiding land fragmentation, i.e. subdividing land into smaller portions that would not benefit small scale farmers due to economies of scale. Night (2004) argued that "it is not economically feasible to partition large commercial farms into smaller, affordable units in situations where resources are lumpy and the cost of surveying, transferring and registering subdivisions are high. Despite the fact that equity schemes started before land reform itself, their inclusion as land reform option has raised a lot of controversy and criticism around them. Most of criticisms were leveled by the Surplus People Project (SPP) in their comprehensive review of equity-share schemes in the Western Cape and Kwazulu-Natal (Fast, 1995). The study centered around nine issues, namely, worker participation during establishment of the scheme, beneficiaries' expectations, power relation, the position of non-beneficiaries on the farm (seasonal workers), gender relations, tenure security and issues of entry and exit from the scheme. The study revealed that farm workers were generally disappointed by how benefits of equity-share schemes were not realized. According to the report by Fast (1995), land reform and housing plans were not fully explained to beneficiaries, farm workers did not participate in decision making, especially in financial matters and legal arrangements. The imposition of a the first moratorium on equity-share schemes by the Minister Didiza in 2000 and a call for their review was a strong indication that equity-share schemes were indeed not serving their original purpose (DRDLR). Ekert et al (1996) examined equity-share schemes from the perspective of income distribution. They argued that redistribution of income is crucial to South Africa's history of uneven land distribution. In their studies, they found that although workers formally knew that they would receive a share of the business as beneficiaries, they rarely understood the meaning of the term dividends as dividends are seldom declared in most of equity-share schemes. Hall et al (2004) attacked equity-share schemes from power relations perspective, arguing that they introduced very minimal change in power relations. As cited in Gray et al (2004), they regard equity-share schemes as failing to meet the objectives of redistributing power and resources. Karaan (2004) studied equity-share schemes from institutional appraisal point of view and concluded that they fail because of incomplete contracts. Among other recommendations cited in Karaan, selected projects should be bankable irrespective of subsidies. They should favor proven human capital, be progressive and entrepreneurial initiators accommodate growth and equity approaches and dynamic worker participation from initiation (Karaan, 2004). Mayson (2003) views equity-share schemes as a contributor to land tenure security, improved access to capital, transfer of business and management skills, generator of immediate benefits, promoter of gender equality and power relations. Mayson (2003) identified five types of joint ventures including equity-share schemes, which are expected to contribute to land reform, namely, contract or out grower farming, share-equity schemes, municipal commonage schemes, share cropping and company-supported schemes. Knight et al (2003), in his study of four equity-share schemes in the Western Cape, included evaluation of financial performance using a complete set of financial performance indicators. They conducted financial ratio analysis to the four schemes, applying profitability, liquidity, solvency and growth by using data from financial statements from the four schemes. Although their study was not primarily aimed at evaluating the actual financial performance of these schemes, they were able to arrive at a feasible set of indicators for measuring financial performance of equity-share schemes (Knight et al, 2003).

3.3. Framework for evaluation of equity-share schemes.

A broader spectrum of evaluation criteria guided the current and recent debate on the performance of land reform programme based on their original and perceived objectives. But questions regarding the successes or failures of equity-share schemes based on worker participation, empowerment and institutional arrangements (Gray et al, 2004). Knight et al, 2003, argued that 'a successful equity-share scheme should achieve a variety of goals, including redistribution of wealth, worker empowerment, retaining or attracting quality management, creditworthiness, improved worker productivity and power relations," with ownership and control being fully transferred to previously disadvantaged shareholders (Knight et al, 2003). Unfortunately, as noted by Gray et al (2004), very few studies have ever achieved a combination of the above criteria in assessing equity-share schemes. A study by Hall et al (200) found that in most equity-share schemes power relation and gender equity were not achieved at all. While Karaan (2003) arguing that equity-share schemes fail because of institutional incompleteness, Mayson (2003) on the other hand found that tenure security is not achieved through equity-share schemes. A study by Knight et al (2003) related financial performance and sound institutional arrangements to worker empowerment and good management, which were found to complement each other, Gray et al (2004). Most equity-share arrangements were initiated by the private sector in partnership with land reform beneficiaries, the DRDLR acting only as a facilitator, but provided guiding principles for funding and implementation. However, as noted by Mayson (2003) "very little research has been done by the DRDLR on these schemes," hence insufficient statistical information on equity-share schemes nationwide. Based on the previous research done, assessment of the financial performance of equity-share schemes can broadly be classified into three broad criteria namely, empowerment, institutional arrangement and financial performance.

3.4. Financial statement analysis as a criterion for measuring financial performance.

This section introduces financial statement analysis as a criterion for measuring financial performance. The study by Knight et al (2003) of four equity schemes in the Western Cape, applying financial performance indicators, has set a reference point for evaluation of performance of equity-share schemes using the financial criterion. They applied ratio analysis to a set of indicators obtained from financial statements i.e. income statements and balance sheets. According to Correira et al (2008) financial statement analysis is assessment of income statements, balance sheet and cash flow statements to do a comparison of costs and benefits in order to determine the financial performance of a project for making managerial decisions. The objectives financial statement analysis is providing valuable financial performance information for equity investors, credit grantors, management, employees, and auditors as well as for acquisition and merger analysis (Correira, 2008). Financial statements analysts use several approaches, including comparative financial statements and trend analysis, index analysis, common size analysis and ratio analysis. For lack of information on other equity-share schemes in the area, trend analysis will be used for this study. The following table gives an outline of indicators proposed for this case study (table 4).

Table 4. Conventional financial ratios for measuring the financial performance of farm enterprises.

MEASURE	RATIO / INDICATOR	NORM	SOURCE
Profitability			
Gross profit margin on sales	Gross profit / Sales	Positive trend.	Income statement
Net operating profit margin	Earnings Before Interest and Taxes / Sales	>Consumer Price Index	Income statement
Net profit margin	Net profit / sales	>Consumer Price Index	Income statement
Return On Assets (ROA)	Rate of return on Farm Assets: Average Farm Assets	Exceed real interest rate	Balance sheet
Dividend Return	Dividend payment: Share price	>0	Balance sheet
Liquidity			
Current Ratio	Current Assets / Current	>1	Balance sheet

	Liabilities		
Net Current Assets	Current Assets – Current Liabilities	Positive trend.	Balance sheet
Debt management ratios			
Debt ratio	Total debt / total assets	=1	Balance sheet
Debt to equity	Total debt / total equity	<1	Balance sheet
Times interest earned	Earnings Before Interest and Taxes / interest	>1	Balance sheet
Worker Income	Dividends, capital gains, wages, other benefits and interest received by workers,	Should be monitored over time	Income statements

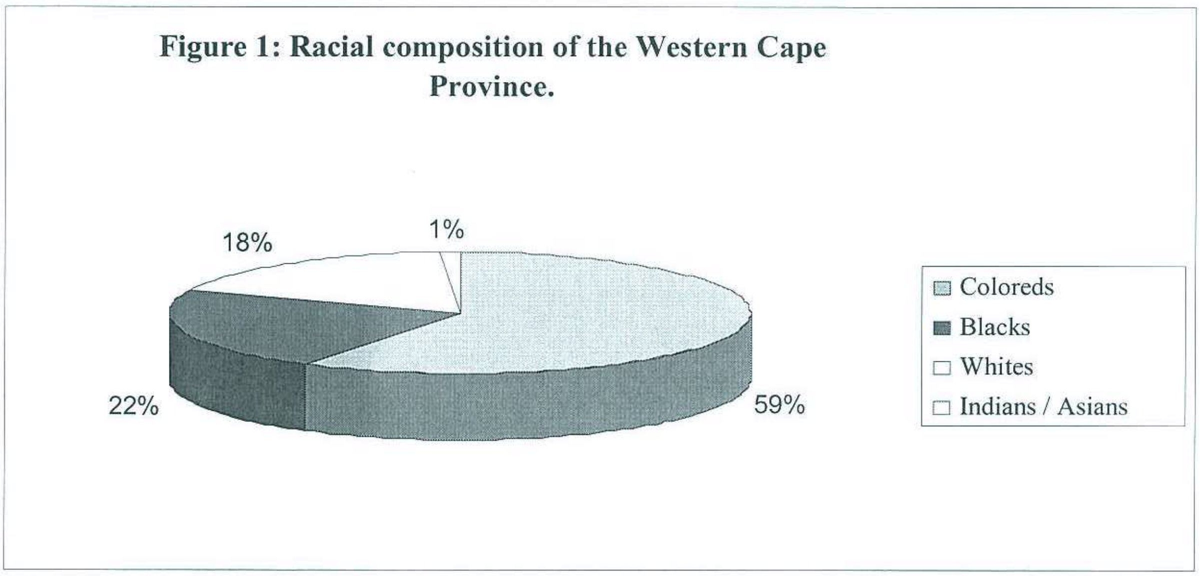
Source: Correira et al, 2008

CHAPTER 4: DESCRIPTION OF THE CASE STUDY

4.1. Overview of the Western Cape and the Overberg District Municipality.

Western Cape Province is located in the southern part of South Africa (Figure1). The province is home to more than 1.2 million households and a total population of more than 4.5 million people, which is growing at a steady 1.8% per annum (SSA, 2001). Coloreds dominate the province's racial composition (2655000) followed by blacks (990000), whites (810000) and Indians / Asians (45 000).

Figure 5: Racial composition of the Western Cape province

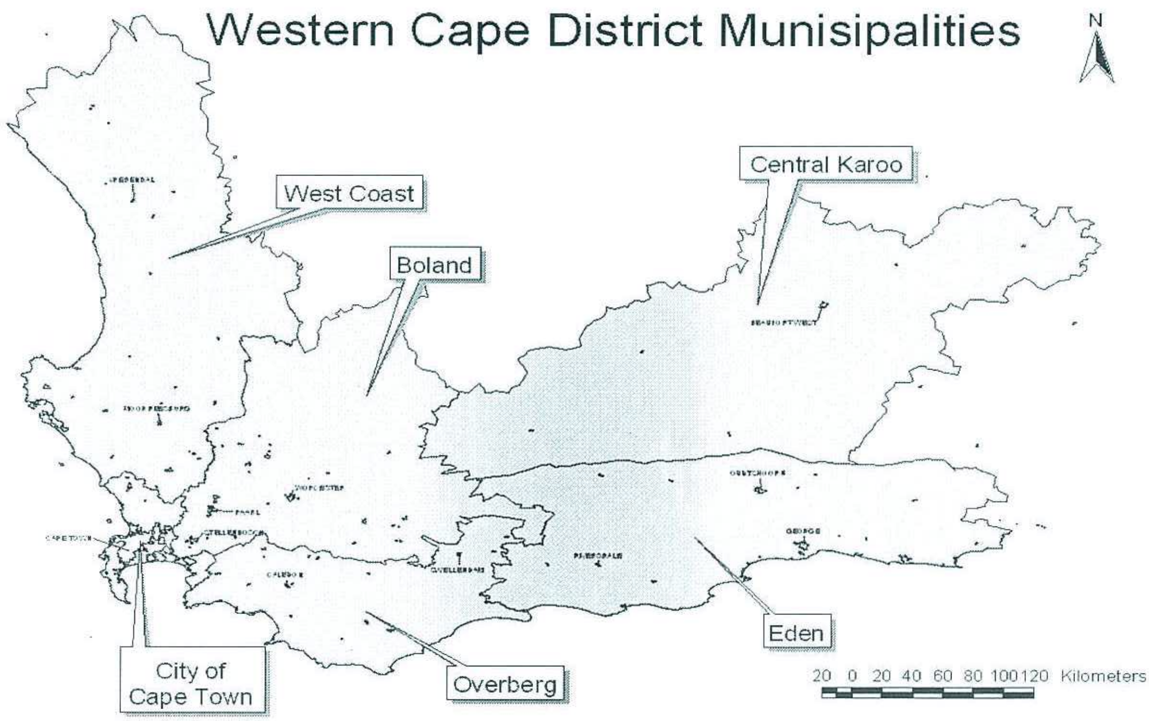


Source: Statistics South Africa, 2001.

Western Cape is made up of six district municipalities namely Cape Town Metropolitan, West Coast, Central Karoo, Cape Winelands, Eden and the Overberg districts, (fig. 1). Cape Metropolitan is the most populated district with 62.2% of the population. The Winelands's population is second largest (14.2%), followed by Eden and West Coast. The Overberg and Central Karoo are the least populated, constituting 3.8% and 1.5% of the population respectively (SSA,2001). With the total area of hundred and twenty thousand square kilometers, the province of Western Cape is the second largest province after Free State and covers ten percent of South Africa's total size. Western Cape is the second richest province after Gauteng Province, with the

Gross Regional Product of hundred and fifty billion Rand. National statistics denotes that although Western Cape contains only ten percent of South Africa's total population, the province contributes fourteen percent of South Africa's Gross Domestic Product, making its per capita income of thirty five thousand rand per annum higher than the national average per capita income (SSA, 2001).

Figure 6: Western Cape district municipalities.



Source: Wesgro, 2004

Despite the higher than national average per capita income, household incomes show extreme disparities between agricultural and non-agricultural households, urban and non-urban households as well as racial groupings. White households earn higher per capita income than other races across the province. Households around the Cape Metropolitan are richer than households in the country side, which are dominantly agricultural. Western Cape is known for its uneven political landscape with lack of continuity in political leadership. In 1994, following the first democratic elections, the province was led by a coalition of the Democratic Party (DP) and

National Party (NP), later it was taken by African National Congress (ANC). The province is currently under the leadership of the Democratic Alliance (DA)

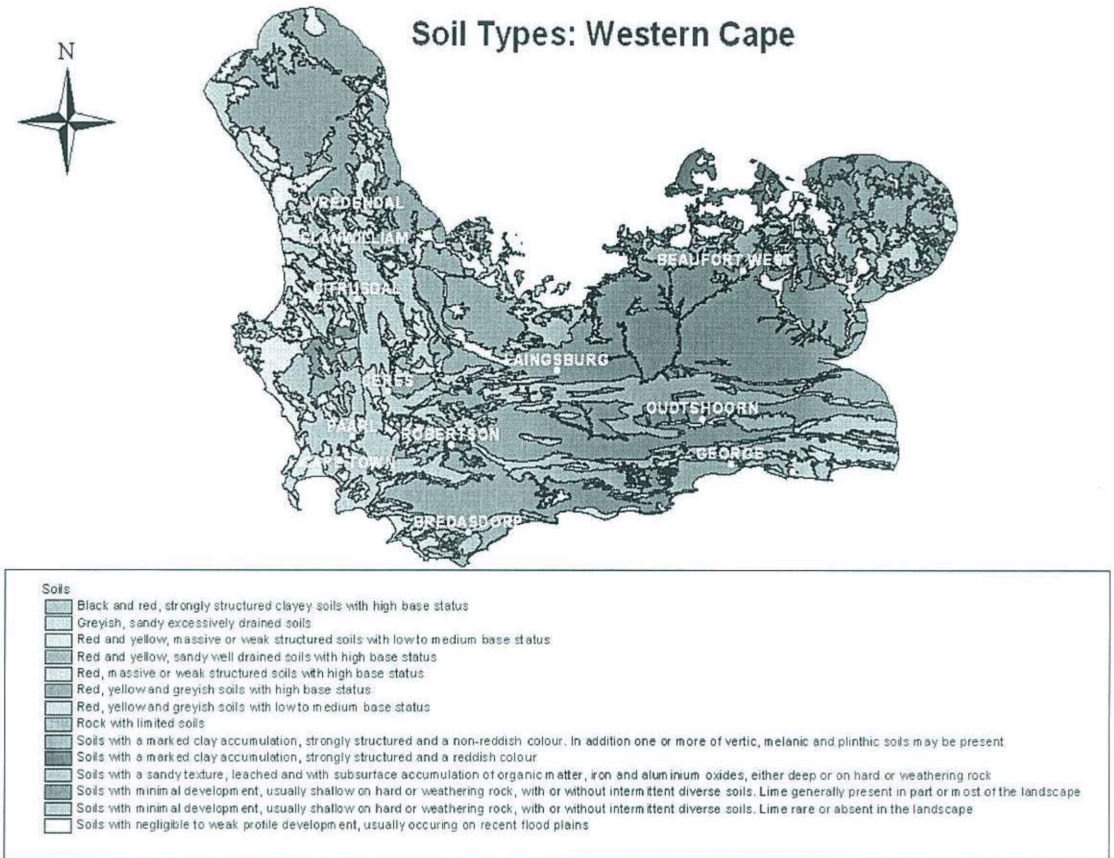
Table 5. Western Cape economic indicators.

Area	120 000km^2
Population	4,5 million (10% of SA)
Annual population increase	1,8%
Cape Town population	3,1 million
Gross Regional Product (GRP)	R150 billion (14,4% of SA)
Per Capita GRP	R35 000 p.a.
Provincial Per Capita adjusted in US$	11 200
Gross Regional Product Growth	2,8%

Source: Wesgro, 2004.

Western Cape enjoys a Mediterranean climate, with cold rainy winters and hot dry summer and rainfall estimates of 2000mm and less than 150mm in the little Karoo and West Coast. Agriculture plays the most important role in the economy of the Western Cape and it is the greatest contributor of the province's Gross Domestic Product. The province has 7185 farming units, second highest after Free State (8513), (SSA, 2001). Despite this, the province's agricultural labour force has shown a steady decline from 223175 in 2008 to 202945 in 2009 due to the recent economic recession (SSA, 2001). Western Cape has the highest market value of assets in the agricultural sector (R29.9 billion), almost thirty percent of the total national one. The province constitutes twenty five percent of the nation's total farming debt (R7.9billion), (Wesgro, 2004). Western Cape is South Africa's chief exporter of fruits and nuts, wine, beverages and spirits as well as fish, crustaceans and molluscus. One of the outstanding features of the Western Cape is its diverse topography, comprising the Cape Floral Fold Belt, with a range of sandstone folded mountains of the carboniferous age ranging from 1000m to 2300m. The valleys are generally rich and fertile containing the alluvial loamy to clay soils. The Karoo Basin is arid and hilly with a sharp escarpment in the north. The coastal areas include the Cape Agulhas (southernmost) and the West Coast. Vegetation is extremely diverse, with one of the world's seven floral kingdoms (Cape Floral Kingdom) almost exclusive to the Western Cape, most of which is covered by Fynbos.

Figure 7: Soil types in the Western Cape



Source: Wesgro, 2004

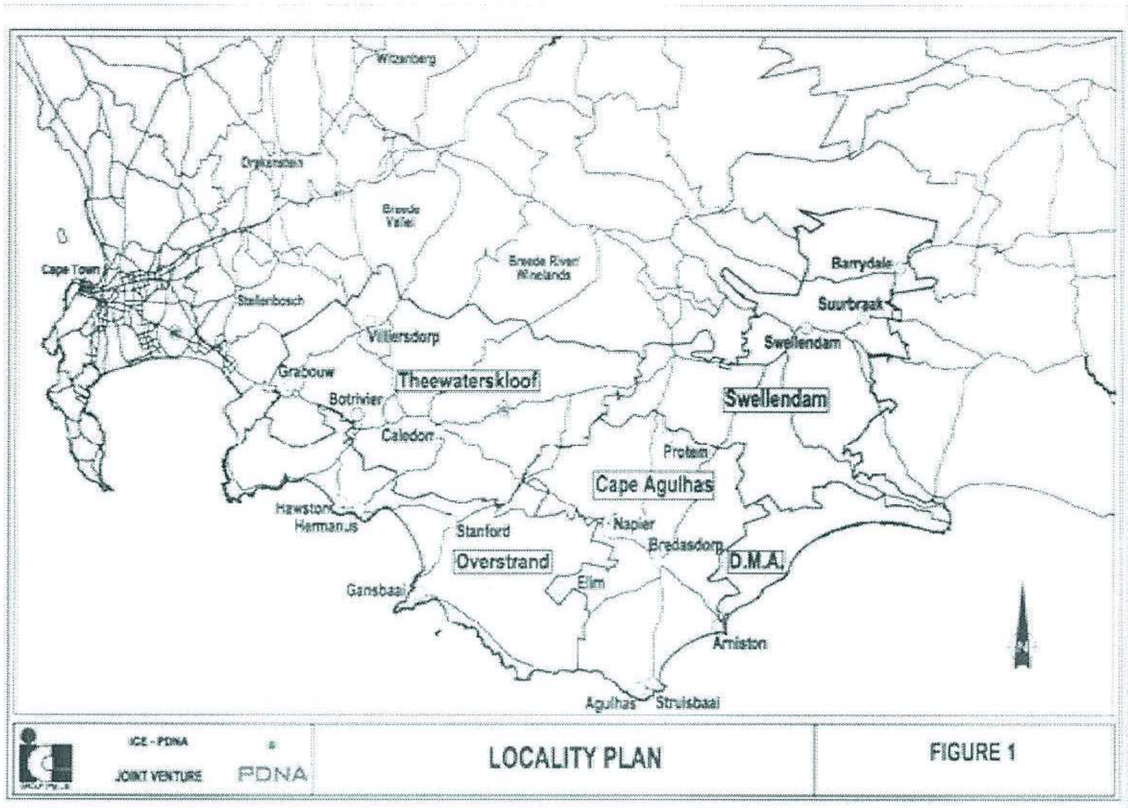
4.2. Farming systems in the Western Cape.

A variety of farming systems exist in the Western Cape. The Overberg District around Bredasdorp, Caledon, Swellendam and Reviersonerend is dominated by rain fed production of winter cereals (wheat, sorghum, barley and oats), dairy and wool products. Areas around Grabouw, Botrivier and Villiersdorp are suitable for production of apples, peach and apricot. Production of table and wine grapes is suitable in and around Cere, Paarl, Worester and Robertson, in the Cape Winelands and some parts of the Overberg District around Hermanus and Stanford. The Karoo is known for its extensive production of mutton, pork and chicken in Beaufort West and Leinsburg. Ostriches are mainly produced in the Eden District especially in areas around George and Oudshooring. Soils around Vredendal, Clanwilliam and Citrusdal are suitable for production of citrus, vegetables and cereal crops.

4.3. The Overberg District Municipality (ODM)

Geographically the Overberg is located in the southern part of the Western Cape. The district boarders with Cape Winelands to the west and northwest, Eden district to the east as well as the Atlantic and Indian oceans on the southwest and southeast respectively. Since the district is located in the southernmost tip of Africa, it is affectionately known as the foot of Africa. Main economic and service centers in the Overberg district are Grabbouw, Caledon and Swellendam in the north along the N2 highway and Hermanus, Gansbaai and Struisbaai along the coast. Bredasdorp, another rural center, is located inland twenty eight kilometers north of L'Agulhas, the southernmost town. These rural service centers are grouped into four local municipalities namely Cape Agulhas, Swellendam, Overstrand and Theewaterskloof. Bredasdorp is the capital of ODM and the location offices for both the ODM and Cape Agulhas Municipality (CAM). Several offices of government departments are located in this city, including Rural Development and Land Reform (RDALR), Department of Agriculture (DoA).

Figure 8: Local municipalities in the ODM.



Source: Demarcations board (undated)

The Overberg district is characterized by a range of protected areas, including the little Karoo in the northeast, mountain fynbos and indigenous forests, the lowland area consisting of the Ruggensveld and the Coastal Strandveld. The coastline and marine environments are the Overberg's most important assets (IDP review 2009). The district is located between the Indian and Atlantic Oceans and various mountains and situated in the smallest of the world's six floral kingdoms, the Cape Floral Kingdom. This renders most of the areas of the district unavailable for development. Despite being one of a rich province's districts, the Overberg is dominantly poor. Second poorest from the Karoo, the Overberg's economy is largely dependent on agriculture, its dominant generator of GDP and where most of its labor force is absorbed. The Overberg's agriculture is largely characterized by its co-existence of the white commercial and emerging / developing subsectors. The white commercial subsector is well developed, with clear ownership of land, infrastructure and other capital resources while the colored subsector is generally landless, less developed and dependent on government support. This subsector is generally characterized by the following: Limited access to land, low level of education, limited access to agricultural finance, un / under-developed infrastructure, lack of association and dependency on government support. Farming in the Overberg can be divided into three main agro-ecological regions. The area around Bredasdorp, Reviersonderend and Caledon, where grain such as wheat, barley, oats and lucern is cultivated. The area around Grabouw and Villiersdorp is dominated by apples, pears and stone fruit. Swellendam and surrounding is known for producing a mixture of agricultural commodities, including dairy, grapes, grain and some citrus and vegetable products. An important obstacle of development for the emerging agricultural sector is lack of land. Most of the land that is not privately owned is either under conservation or not suitable for farming namely part of the desert, mountain areas, lowland area, rivers and marhes, lagoons, estuaries and the coastline (IDP, 2009).

4.4. Introduction to Vuki Farm.

The case study, Vuki is a deciduous fruit producing equity-share scheme situated in Theewaterskloof local municipality on the N2 highway 60 kilometers southeast of Cape Town and 20 kilometers outside the town of Grabouw. This is one of the first equity schemes in the Overberg District and of many such schemes in the Western Cape, the province where agricultural equity-share schemes originated. The farm covers a total area of 280 hectares, which are currently fully utilized for export production of deciduous fruits (apple, apricot, pears and some vines).

4.4.1. Background to Vuki Farm

In 1993 the owner of Whitehall farm, Mr Henry Hall, approached the workers on his farm to present a part of the farm to them for sale. Three of the workers, who were part of the management structure, approached the rest of the group to discuss the matter and all were eager to become part of the deal. At first, only 33% was available for the workers to buy, but after realizing that it was not acceptable by law, the workers were offered 50% ownership in the company. The farm was valued at R29 million, half of which was financed through Independent Development Trust, Development Bank of Southern Africa and Standard Bank. According to management at Vuki, by May 1995 the workers owned 50% of the company. For the period

1995/1996 everything went well and the project was regarded as one of the icons of Black Economic Empowerment (BEE) in South Africa. From 1997 the project started experiencing financial problems due to the worsening export fruit market. In 1998 the project used its total force of hundred and twenty one workers to apply for a subsidy from the then Department of Land Affairs (DRDLR), which was granted and transferred into the business. The DRDLR grant land reform grants to qualifying previously disadvantaged groups, arranged in a way that each beneficiary (household) qualifies for a Settlement and Land Acquisition Grant to an amount of R15 000, which were pooled together to supplement the loan obtained from commercial banks. The following year (1999) the project started retrenching workers and a total thirty four workers were encouraged to take retrenchment packages. In 2001 another twenty one workers were retrenched. By 2003 the total labour force at Vuki stood at forty two. In 2001 Landbank applied for liquidation and forensic audit of financial statements but requested the group to carry on with the farming activities.

Figure 9: Specific location of Vuki Farm

Source: Theewaterskloof Municipality, 2010.

In 2003 Landbank made an offer to the 42 workers to buy the farm but the deal was not successful. In 2004 Vuki obtained an LRAD grant together with Comprehensive Agricultural Support Program (CASP) and an additional funding from Amalgamated Banks of South Africa (ABSA) to purchase the farm under equity share arrangement. The labour force at is currently forty one (Vuki Farming, 2010).

4.4.2. Profile of beneficiaries

Intended beneficiaries of Vuki Farm were all Previously Disadvantaged People. They qualified for Settlement Land Acquisition Grand. According to Department of Rural Development and Land Reform, applicants need to fall below the average household income of R1500, considered landless and residing at the farm. Four workers retired as farm workers and currently reside at the farm's old age component. The majority of applicants are Afrikaans speaking (Coloreds) from Grabbouw, constituting the poor inhabitants of the Western Cape Province. Some of the beneficiaries were workers at the farm for more than two decades, while others were born at the farm. The majority of workers were born in the sixties and fifties and mostly heading for retirement age. They are all South African citizens and fall above the age of eighteen years. All the above characteristics qualify the applicants for LRAD, SLAG and CASP funding (DRDLR. 2007).

Table 6. Applicant's profile.

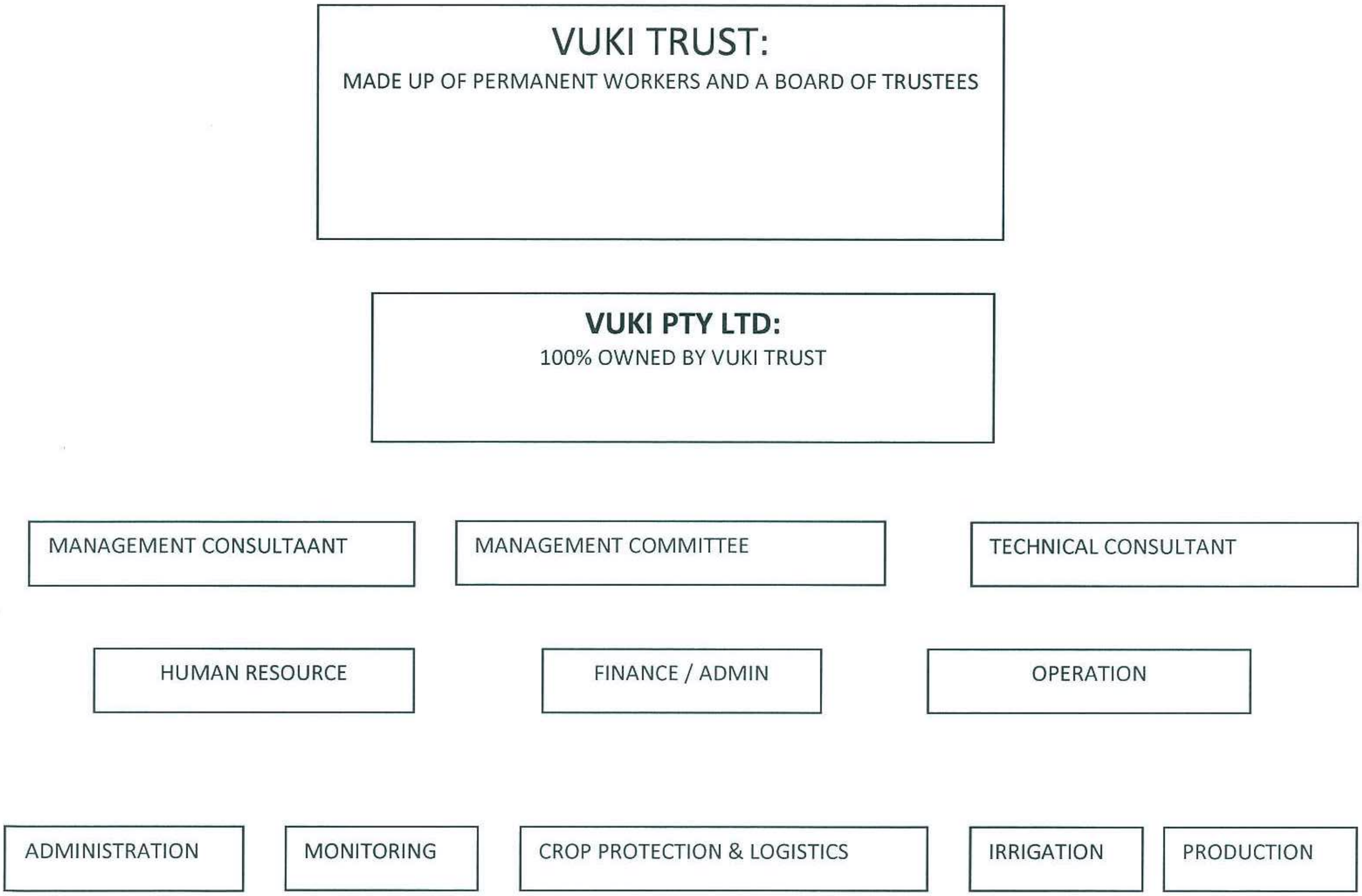
Name of the scheme	Vuki Farming
Number of beneficiaries	39
Number of non-PDIs	2
Number of male beneficiaries	32
Number of female beneficiaries	7
Number of young workers	6
Number of disabled workers	0
Number of fired workers	2
Number resigned workers	4
Number of died workers	3
Number of retired workers	3
Average income per worker per month	R1 500

Source: Vuki Farm, 2010

4.4.3. Institutional arrangements

Vuki Farming is made up of two legal entities namely Vuki Trust, the sole owner of the second entity, Vuki Operating Company, which oversees businesses of Vuki Trust. Vuki Trust was formulated in accordance with article 6(1) of the Control of Trust Goods Act 57 of 1988. The trust was founded by Land Bank after liquidation of the Joint Venture established by owners of the Whitehall farm in 2002 (Vuki Workers Trust, 2002). The trust is formed by all the beneficiaries, who are also full time employees of Vuki Farming. The trust is administered by a board comprising of eight (8) directors appointed by beneficiaries of the scheme by means of election and are entitled to serve on the board for a period of two years renewable on the discretion of members. Resolutions of the trustees are carried by a simple majority of the trustees present and voting at a meeting. Any member of the trust may be elected to serve on the board of trustees irrespective of sex but subject to age limitation of between sixteen and sixty five i.e. excluding minors and pensioners.

Figure 10. Organizational structure of Vuki Farming



Source: Vuki Farming (2010)

4.4.4. Duties and responsibilities.

According to the Notarial Trust Deed (2005), Vuki Trust is a non-executive component of the scheme. It is a legal entity representing beneficiaries participating in the scheme. It holds shares for its members and acts as a platform for members' influence in the scheme. The board of trustees runs the scheme on behalf of beneficiaries. Vuki (Pty) Ltd is an overseer of the scheme's day-to-day operations, starting from enterprise planning to fruit marketing. It is made up of a team of managers who advice the trust on technical and management issues, including operations of the trust itself. Management consultant acts on behalf of the scheme on all matters and then direct issues of concern to relevant line managers and reports to management committee. Technical consultant advices management committee on technical issues relating to production of the fruit, including crop protection and logistics, irrigation, fertilization, harvesting and marketing.

4.4.5. Current land use.

Out of the total farm size of Vuki Farming amounting to 280 hectares, 220 hectares (85%) is used for deciduous fruit production for export market. 40 hectares is currently used for production of wine grapes and the remaining 20 hectares for residence, services and farm infrastructure (Vuki management, 2010).

CHAPTER 5: RESEARCH DESIGN AND METHODOLOGY

5.1. Introduction.

This chapter describes the research design and methodologies applied in carrying out the research project. By definition, a research design is a plan or blue print of how one intends to conduct a research project. It provides a guideline of how one intends to conduct research (Mouton, 2001).

The main objective of the study was to explore the performance of the case study using financial criteria and perceptions of farm workers on the general performance as an additional input to the study. Although the study acknowledges the enormous amount of work already done on evaluation of the performance of equity share schemes, we also realized that there are research gaps in utilization of the financial criteria in the evaluation of equity share schemes (Gray et al, 2004).

The chapter will start with emphasis of the research objectives and introduction of the case study design, followed by a detailed explanation of why a case study design was chosen for this research, by means of an examination of benefits and risks involved in the case study methods as well as ways to mitigate those risks. This will be followed by a process of conceptualization and operationalisation to give the reader a clear understanding of different concepts used in the research and how several variables and parameters were used to carry out the research project.

This research drew information through both quantitative and qualitative research methodologies. Quantitative data was obtained from financial statements and qualitative data from perceptions of farm workers and management on general performance of the scheme. A detailed description of both the two approaches is found in this chapter.

Vuki Farming was specifically selected for several reasons, which will be introduced in this chapter. Description of the target population will be addressed, followed by methods of data collection, synthesis and the rationale behind choosing all these methods, which will form the rest of the chapter.

Since the study attempts to answer certain specific and general questions, the questions will be outlined and attached to methods applied in answering those questions.

5.2. Research objectives.

Broadly, the ultimate aim of the study was determining the financial performance of the case study Vuki Farm equity-scheme to explore the extent to which the scheme has or has not benefitted its land reform beneficiaries. Specifically, the study sought to attain the following objectives: Review and synthesis of the relevant literature on equity-share schemes and collection of financial data on Vuki Farming to determine its financial performance. Exploration of farm workers perceptions on the general performance of the scheme was just an additional input to the research, which was evaluated by how the workers perceive an impact of the scheme on the following: wealth distribution, economic empowerment, gender equity, power relations or decision making and security of tenure. Preparation of a report on findings, conclusions and recommendations to government policy makers, monitoring and evaluation staff of the Department of Agriculture and administrators.

5.3 Conceptualization and operationalisation.

Designing a research project starts with defining the concepts to be measured to give the researcher a broader understanding of basic concepts about the topic to be researched. This provides the researcher a context within which to operate, the scope of research and limitation thereof. Operationalisation deals with operational definition of the subject to be researched, and involves definition of the construct in terms of specific operations, measurement instruments, or procedures through which it can be observed (Mouton, 2005).

Equity-share scheme:

By definition, a share-equity scheme is "an arrangement where both land reform beneficiaries and private sector partners purchase equity in the form of shares in a land-based enterprise (either a land and operating company or separate land and operating companies). Participants

receive returns in the form of dividends and capital growth." (DRDLR, 2007). This research was about evaluation of the financial performance of equity–share schemes using a case study. Equity-share schemes were introduced as a means of dealing with the slow pace of redistributing land and wealth to previously disadvantaged South African citizens (Gray et al, 2004). Section 10(1)(b)(v) of the Provision of Land and Assistance Act, Act 126 of 1993, as amended, allows for the acquisition of an equity share in an existing agricultural enterprise by a beneficiary.
An equity-scheme is arranged in such a away that participants (both land reform beneficiaries and private sector partners) purchase equity in the form of shares in a land-based enterprise. Participants receive returns in the form of dividends and capital growth (DRDLR, 2007). Farm worker equity-share schemes were founded with objectives of wealth distribution, gender equity, decision making and tenure security. When evaluation equity-share schemes, it is therefore imperative for researchers to ask the following questions, stated also as questions for this research.

- The extent of wealth distribution for beneficiaries.
- The extent to which farm workers were empowered.
- The extent to which gender equity was achieved.
- The extent to which farm workers participate in decision making.
- The extent of security of tenure for farm workers.

A review of current literature on equity-share schemes indicated that that most of the research work done focused on the abovementioned indicators of performance, against which equity-share schemes were evaluated but ignored the financial criteria of evaluation (Knight, 2004).

Financial analysis:

Assessment of income statements, balance sheet and cash flow statements to do a comparison of costs and benefits in order to determine the financial performance of a project for making managerial decisions. Financial and economic aspects are key determinants of sustainability of agricultural projects. Gittinger (1985) argues that economic and financial analysis of concrete projects can determine the potential for growth and efficiency of the agricultural sector. Equity-share schemes are not immune to this generalization. According to Department of Rural Development and Land Reform, the project officer should use his / her discretion in deciding the scope of financial information required based on the value and complexity of the enterprise. Although a lot of financial analysis has yet to be done in the field of equity-share schemes, the DRDLA proposes a number of financial indicators to be used in evaluating the financial performances of farm worker equity-share schemes that can be calculated from income statements and balance sheets (Gittinger, 1995).

For the purpose of this study, the following financial indicators are used to determine performance of equity-share schemes:

Financial ratio analysis:

Financial ratio analysis is one of the tools used by financial analysts for making decisions regarding credit and investments. This method utilizes the data found in financial statements to determine a company's standing. Analysts will compare the company's ratios to its past performance, as well as to industry statistics to determine risks, trends, and to identify any peculiarities. This analytical tool facilitates inter-company as well as intra-company comparisons.

Measurements / Financial Performance Indicators (FPIs):

- Profitability Ratios: Measures a company's operating success over a given period of time Profitability is measured by profit margins, return on assets, return on equity and dividend return.

- Liquidity: Measures the short term ability of a company to pay its debts and meet unexpected cash needs. Liquidity of a company is measured by current ratio, net current assets and acid test ratio.

- Solvency: Measures a company's ability to meet long term commitments on a continuous basis, which is measured by debt asset ratio.

- Debt management: The degree to which a company can manage its long term debts. It is measured by debt ratio and times interest earned.

- Worker income: Dividends, capital gains, wages, other benefits and interest received by workers.

5.4 Research approach.

The research employed both quantitative and qualitative research designs as well as positivist and interpretive research approaches. According Khariul (2008) the choice of a research approach depends on the nature of a problem and the kind of information to be found. This led to basically two broad classifications of research namely quantitative as opposed to qualitative research. Theories underpinning them are further classified as follows: Firstly, positivism, which is an approach to the creation of knowledge through research that emphasizes a model of natural science. Positivism is more closely associated with quantitative research. The kind of data sought out is mostly numerical and involves objective measurements. The second approach, interpretive social science, is about reality that is socially constructed rather than objectively measured. Interpretive social science deals with not only the gathering of facts and how often certain patterns occur but also recognizes the different meaning people attach to their own living conditions. Advocates of interpretive social science believe reality is not only what you see. They believe that there is root couse for any situation and that positivism only reduces people to numbers. Financial performance evaluation of equity-share schemes involves quantitative data extracted from income statements and balance sheets, (Knight et al, 2004). Perceptions of beneficiaries on the scheme's performance were recorded as verbal statements involving an in-depth interview of beneficiaries. Thompson (2008), views qualitative research as "research involving detailed, verbal descriptions of characteristics, cases, settings, people or systems obtained by interacting with, interviewing and observing the subjects. Qualitative research typically starts with the use of document review to collect data".

5.5. Motivation for choosing both approaches.

Quantitative data was targeted for its time saving i.e. financial statements were readily available and easily obtained. That made it cheaper to carry out the research project. Quantitative data was suitable for this kind of research since it provided objective measurements for evaluating the financial performance. Qualitative data, which is presented as perceptions on the general performance of the scheme, was included as additional input to the research but it provided an opportunity to explore what was behind the numbers. To understand the conditions of beneficiaries more clearly.

5.6. Rationale for choosing the case study.

The case study, Vuki Farm is a deciduous fruit producing equity-share scheme situated in Theewaterskloof local municipality on the N2 highway, 75 kilometers southeast of Cape Town and 20 kilometers outside the town of Grabouw. Vuki Farm fits squarely into Yin's (1984) definition of a case study: "an event, an entity, an individual or a unit of analysis or empirical inquiry that investigates a contemporary phenomenon within real life context using multiple sources of evidence. According to Anders (1993), a case study is not the study of the whole population consisting of units of analysis but focus on a particular issue, feature or unit of analysis. Vuki Farm is one of many equity-share schemes implemented in the Western Cape as a means of furthering a set of land reform objectives. Like other equity-share schemes, Vuki was funded by DRDLR through its LRAD mechanism after meeting almost all the prescribed funding requirements namely:

- Although benefiting both black and white, the scheme's applicants are all from previously disadvantaged communities.
- Beneficiaries of the scheme are all farm workers comprising designated groups ie, blacks, women and young workers.
- The scheme is one of the equity-share schemes implemented in the Overberg District Municipality.
- The scheme was established with land reform aims and objectives.

Implementation of this study presented the opportunity to do the following activities associated with both quantitative and qualitative as well as case study methodologies:

- Participation in interviews regarding perceptions of beneficiaries on the financial and general performance of the scheme, by way of holding meetings with interviewees at Vuki Farm.
- Observation of living conditions of beneficiaries and responses during interview sessions at Vuki Farm.
- The case study provided an opportunity to emphasize the situation since only one case was used as opposed to multiple cases.
- Exploration of several techniques used in the gathering and analysis of information about the topic.

5.7. Target population.

The target population is beneficiaries of Vuki, who are structured in two entities namely Vuki Trust and Vuki Farming Pty. Ltd. The trust is the owner of he fixed property and sole shareholder of Vuki Farming Pty. Ltd. Vuki trust is made up of 42 trustees represented by 5 board members. All the 42 members of the trust are permanent employees of the farming enterprise, of which 9 are women, and 6 are between the ages of 18 and 35 (young workers). 40 of the members are considered Previously Disadvantaged Individuals (PDIs) and only 2 are white managers and did not qualify for Land Redistribution for Agricultural Development. Vuki Farming Pty. Ltd is made up of seven (7) members of consultative management forum comprising managers from various fields of expertise assisted by technical consultants. The workers' rights are represented by a worker's union.

5.8. Identification of respondents

The population is made up of a total of only 42 members, who are both members of the scheme and shareholders of the operating company as well as permanent workers of the farming enterprise. One member of the workforce acts as a representative of the union standing for worker's rights. Our population is made up of 7 female workers, 33 male workers, 6 youth and a management team of 6.

5.9. Data collection.

The study employed two methods of data collection. Firstly obtaining of financial statements from Finance Department of the scheme (secondary data) to assess the financial performance using a recognized set of financial ratio analysis indicators. Other forms of secondary data constituted literature on land reform, government policies on land reform, and a review of literature on previous research on farm worker equity schemes. Secondly, administration of unstructured interviews with management of the scheme, male and female workers as well as young workers.

5.9. Data analysis.

Presentation of the literature review on the topic was done by summarization and interpretation of the information into graphs, tables and maps. After arranging and reducing the financial data to workable sizes, a recognized set of financial analysis indicators was applied to determine the financial performance of the scheme. For perceptions of farm workers on the scheme's general performance the data was sorted into themes and patterns.

Table 7: Summary of research questions and methods of answering them.

STUDY QUESTION	METHODS OF ANSWERING
o How are farm worker equity-share schemes financially performing?	Financial Ratio Analysis
o What is the impact of the scheme on wealth distribution for beneficiaries?	Interviewing of participating farm workers.
o What is the impact of the scheme on empowerment for farm workers?	Interviewing of participating farm workers
o What is the impact of the scheme on gender equity for farm workers?	Interviewing of participating farm workers

o What is the impact of the scheme on decision making for farm workers?	Interviewing of participating farm workers
o What is the impact of the scheme on tenure security for farm workers?	Interviewing of participating farm workers

CHAPTER SIX: RESEARCH FINDINGS

6.1. Introduction.

The previous chapter dealt with research design and methodologies proposed for the study on evaluation of financial performance of equity schemes. Research aims and objectives were restated and emphasized. An attempt was made to place farm worker equity schemes in the context of wealth creation and redistribution through the process of conceptualization and operationalisation. The chapter also introduced financial analysis and ratio analysis as a criterion for evaluating financial performance of equity-share schemes, citing financial statements as a major source of data for calculation of financial ratios.

This chapter presents the results of a detailed and comprehensive study conducted on Vuki Farm. During February 2010 the department of agriculture Western Cape in the Overberg District Municipality was approached to request permission to evaluate the financial performance of Vuki Farming. Shortly after permission was given, a meeting was arranged with management committee for presentation of the research proposal approved by University of Limpopo (UL) for such a study to be carried out. This meeting was organized through the local extension officer Ms Gedze and Vuki's management consultant Mr. Mackay and included a discussion on several ethical considerations to safeguard the scheme against negative perception by the public. This meeting was followed by an official letter of request, supported by the District Manager (DoA), for audited financial statements on the scheme, namely income statements and balance sheets for the years from 2006 through to 2009. These documents were made available and collected during the second session with management team, during which an unstructured questionnaire was administered (annexure I). The session was also aimed at finding perceptions on the general performance of the scheme. Originally the research aimed at interviewing farm workers to establish their own perceptions on the scheme but due to peak harvesting season, only representatives of the trust were interviewed. The last interview was conducted with the financial manager to establish his own perception on the scheme's financial performance, challenges and recommendations . The findings in this are presented in two sub-sections namely, financial performance and the general performance of the scheme as perceived by management and worker representative, which was included as an additional input to the research.

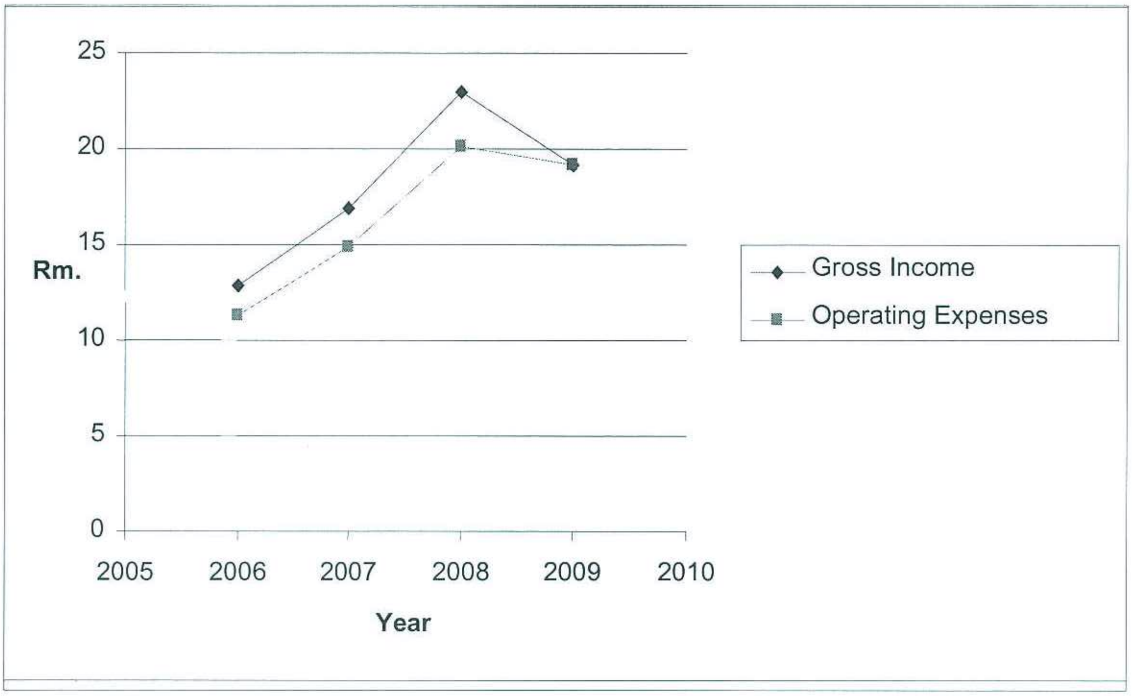
6.2. Financial performance.

After carefully inspecting the financial statements and balance sheets of the past four years, the numbers were summarized and reduced to workable sizes (Annexure A and B). This was followed by a computation of several conventional financial ratios and performance indicators chosen for this case study using the data. The indicators were broadly classified under profitability, return on investment, liquidity, debt management and worker income (annexure C).

6.2.1. Profitability.

Profitability ratio is the most important of all financial ratios as it shows the combined effect of liquidity, asset management and debt management on operating results (Correira, 2008). Mainly, income is generated from the sale of fruit to export markets. Gross income reflected a steady increase of 24% and 36% from 2006 to 2008 and a decrease of 17% from 2008 to 2009. Expenses increased steadily from 2006 to 2008, slightly decreased by 5% between 2008 and 2009 and currently slightly more than the total income (figure 8). This simply implies that Vuki Farming is currently making a loss. However, an analysis of the scheme's profit margins over a period of four years showed different trends from 2006 to 2009. (Figure 9). Management also confirmed that Vuki Farming is currently not financially sound.

Figure 10: Income and expenses: Vuki (Pty)

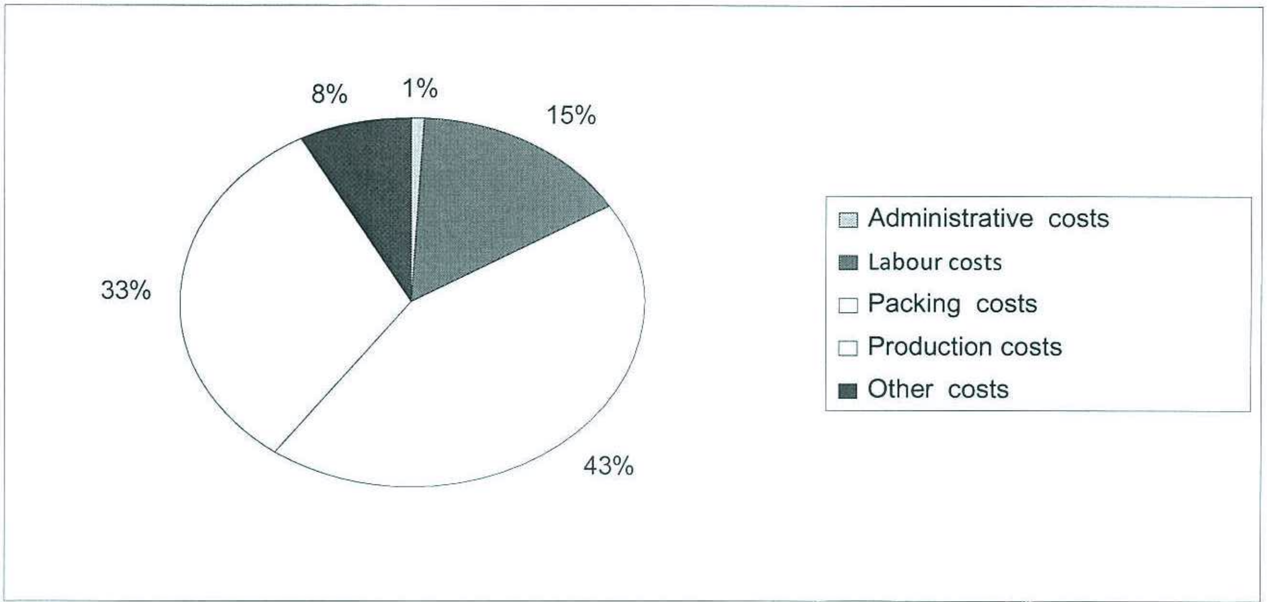


Source: Vuki (Pty) Ltd. 2009.

Packing expenses, having increased from by 138% from 2006 to 2007, and currently standing at 46% of the scheme's gross income, constitute a majority of the project's operating expenses, followed by production costs (33%), labour (15%) and other costs (Figure 9).

Once the fruit is harvested, it is then transported to CROMCO, about 10 Kilometers from the farm, where grading, packaging and export is also done.

Figure 11: Composition of the project expenditure: Vuki (Pty) Ltd.



Source: Vuki Farming (Pty) Ltd 2009.

The scheme's management did confirm that heavy maintenance on worn out machinery and equipment as well as ageing fruit orchards constitute a big financial burden to the scheme and impact negatively on its financial performance.

6.2.1.1. *Gross Profit Margin* on sales is expressed as a percentage and computed by dividing gross profit by turnover with the purpose of determining the scheme's potential of generating a sustainable wealth for its shareholders. Applying the above formula, Vuki Farming had the following results:

Gross Profit Margin = Gross Profit / Sales = 8 071 / 19 133 732 = 0.042 %

2008 = 12,7%, 2007 = 11.7% and 2006 = 13%

The results reflect a declining trend since 2006 and currently posing a threat to financial sustainability of the scheme and its potential of generating wealth for beneficiaries. The scheme has recently realized approximately 0% gross margin.

6.2.1.2. *Operating Profit Margin* measures the percentage of profit generated from farming operation in the total revenue from sales. It is computed by dividing net income before interest and taxes (EBIT) by turnover. This could be the result of lower markups. Using the above formula, Vuki Farming had the following results in recent years:

Operating Profit Margin= EBIT / Sales = -1 063 761 / 19 133 732 = -5.5%

2008 = 7.9%, 2007 = 4.8%, 2006 = 9.8%

Although the operating profit margin showed a marked improvement from 2007 to 2008, it is negative. The same trend as gross profit margin was followed, seemingly because of higher operating expenses and considerable decline in gross profit margin. This implies that it is relatively costly to operate farming enterprises at Vuki.

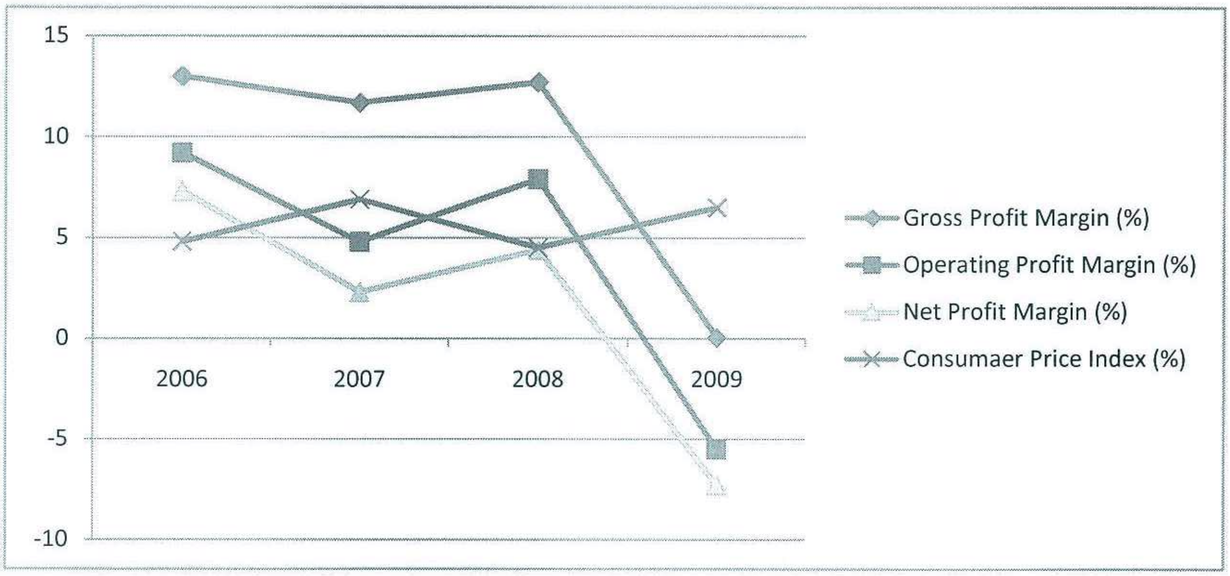
6.2.1.3. *Net Profit Margin* measures the percentage of profit from sales, available or to be declared as owner's wealth, which is available for distribution among shareholder and beneficiaries of the scheme. Net profit margin is computed by dividing net profit by sales. Using this formula Vuki Farming had the following results:

Net Profit Margin = Net profit / Sales = -1 400 582 / 19 133 732 = -7.3%

2008 = 4.4%, 2007 = 2.3%, 2006 = 7.3%

The scheme has a net profit of -7.3%, which worsened from 2008, possibly because of insufficient gross profit margin and negative operating gross margin resulting from high input cost and smaller markups. This implies that no dividends will be declared and considering the Consumer Price Index as a reliable benchmark, Vuki's profitability will reflect an interesting trend when plotted on a graph as shown below. (Figure 9).

Figure 12: Comparison of profit margin percentages with Consumer Price Index: Vuki (Pty) Ltd.



Source: Vuki (Pty) Ltd, 2009.

The above situation simply implies that in terms of inflation the scheme has not realized its objective of creating a sustainable profit for its beneficiaries since 2007. Since Consumer Price Index (CPI) is a reliable benchmark for profitability indicators, taking into consideration the CPI since the beginning, the scheme has not realized economic benefits in the four years from 2006 to 2009 as depicted in above graph.

6.2.2. Return on investment was used to determine the profitability of an enterprise as a whole in relation to the total assets employed. The following two formulas were used to determine Vuki's return on investment:

6.2.2.1. *Return on Assets* is calculated by dividing net profit by total assets. For Vuki the results were as follows:

Return on Assets = Net profit / Total assets = -1 400 582 / 4 063 772 = -34%

2008 = 28%, 2007 = 8.6%, 2006 = 1.9%

Although a remarkable improvement was realized from 2006 to 2008, the return on assets has sharply decreased from 2008 and is currently negative, meaning that the scheme is not realizing any return on investment.

6.2.2.2. *Dividend Return* is income declared annually as to shareholders as available for distribution at the end of each financial year. Since 2006 the scheme declared no dividends.

6.2.3. Liquidity is a creditworthiness indicator. It was used as a measure of the short term ability of a scheme to pay its debts and meet unexpected cash needs. Liquidity of a company is measured by current ratio, net current assets and acid test ratio.

6.2.3.1. *Net Current Assets* measures the project's net current worth and it is computed by subtracting current liabilities from current assets. Applying the formula to Vuki's financial data, the following results were found:

Net Current Assets = Current assets – Current liabilities = R2279196 –R 4287591 = -R2008395

2008=-R169 629, 2007 = -R897 046, 2006 = -R1 838 054

The scheme has realized negative net current assets since 2006, with a remarkable decline from 2008 to 2009. This is an indication that the project is bankrupt and without intervention, the situation can worsen. This also implies that on liquidation the scheme will not be able to settle its outstanding debts.

6.2.3.2. *Current Ratio* is computed by dividing current assets by the current liabilities. Using the formula, Vuki's current ratio was calculated as follows:

Current Ratio = Current assets / Current liabilities = 2 279 196 / 4 287 591 = 0.5:1

2008 = 0.04:1, 2007 = 0.08:1, 2006 = 0.65:1

Considering the benchmark of 2:1 Vuki had a current ratio which is close to the benchmark in 2006 and although it declined between 2008 and 2007, its current ratio showed a marked improvement from 2008 to 2009. The reason could be that the project has more accounts payable than accounts receivable. Assuming 1.0:1 as a benchmark, the scheme's current ratio is ha improved and nearing the Break Even Point (BEP).

6.2.3.3. *Acid Test Ratio* measures scheme's ability to pay off short-term obligations without relying on the sale of inventory. It is calculated by deducting inventory from current assets and dividing the remainder by current liabilities. This ratio was not calculated because figures for inventory were not available.

6.2.4. Debt management ratios were used to determine financial leverage of the scheme and the degree to which the scheme can manage its long term debts. Debt management is measured by debt ratio and times interest earned.

6.2.4.1. *Debt Ratio* measures the percentage of total funds provided by creditors and was computed by dividing the total debt by total assets. The higher debt ratio the higher the financial risk. The above formula was applied to the data on Vuki Farming and the following results were obtained:

Debt Ratio = Total debt / Total assets = 7 363 772 / 4 063 772 = 1.80 times

2008 = 1.70 times, 2007 = 1.60 times, 2006 = 1.60 times

The scheme had very high financial leverage, which showed no improvement between 2006 and 2007, worsened by 10% from 2007 to 2009 and therefore poses very high financial risk.

The total debt ratio and times interest earned are used to evaluate how the company manages its debt. For 2006 the debt ratio of 160% indicated that the schemes assets were heavily financed through debt. This remained the same in 2007 but weakened by more than 5% for 2008 and 20009 to 180%. Times interest earned ration measures the extent to which earnings can decline without causing financial losses to the firm and creating a firm's inability to meet interest costs as this could results in litigation and insolvency. Times interest earned improves with an increase in earnings before interest and taxes (EBIT). In 2006 it was 2 times and improved by nearly 100% to 3.9 with the rise in EBIT and a slight decline in finance costs and a further improvement of 40% to 4.4 times in 2008 but fell to zero due to a complete loss in earnings.

6.2.4.2. *Times Interest Earned* Times interest earned ratio measures the extent to which earnings can decline without causing financial losses to the firm and creating a firm's inability to meet interest costs as this could results in litigation and insolvency. Times interest earned improves with an increase in earnings before interest and taxes (EBIT). It is calculated by dividing EBIT by interest cost. Because of minus figures in under interest and taxes, ratios for times interest earned were not calculated as these will not demonstrate a true reflection of the situation.
However, with the decline in EBIT from 2006 to 2008 and a negative EBIT in of R1063761 in 2009, the scheme will hardly handle its financial burden on interest costs.

6.3. **Worker income** determined the degree to which the schemes achieved its wealth distribution objectives. It is measured by dividends, capital gains, wages, other benefits and interest received by workers. Although no dividends were declared since the beginning of the scheme, with the minimum wage of R1 500, Vuki Farming is still regarded as the highest paying company in the in the farming sector around Grabouw area. No interest was received since 2006 and scheme reflected a negative capital growth for the years 2008 and 2009. This implies that the scheme is not generating any additional wealth for investors. The project's wage bill decreased by 9% from 2006 to 2007 but suffered an increase of 18% and 10% in 2008 and 2009 respectively. According to management and workers, no wage increments were affected since 2006. The average wage per worker is R1500, which is rated the highest wage paid to farm workers in the area. Vuki's wage bill constitutes a smaller percentage of the annual gross income and remained almost constant from 2006 to 2009.

6.3. Perceptions on general performance.

Since the research employed unstructured interview method, perceptions of management and worker representatives were recorded in a special diary as interviews were conducted. The following is a brief description of perceptions on general performance of the scheme.

6.3.1. Economic empowerment.

According to a document from Empowerdex Bee Verification Agency, Vuki (Pty) Ltd. was rated as an empowerment company in the current year for complying with the BBBEE Act in terms of black ownership, participation and control of PDIs and women in management and decision making as well as training, skills and social development. According to management, farm workers are aware of the supposed dividend payment, but also accept the non-payment, due to overdraft, debt repayment and replacement of equipment, machinery and the orchards. Workers also understand that unless the company realizes positive returns, no dividends will be declared to beneficiaries.

6.3.2. Gender equity.

Members of the management team maintained throughout the research process that women's rights are respected and they were involved in decision making processes. Management claimed that there are seven female supervisors at the farm. The board of trustees of Vuki Trust is made up of 8 members, of which 2 (20%) are women. However, during all the meetings held with management team of Vuki (Pty) Ltd, not a single female attended. Due to the physical nature of the work at the farm, women were excluded from most of crucial farming operations. As a result, they subjected to wage discrimination and underpayment as compared to their male counterparts.

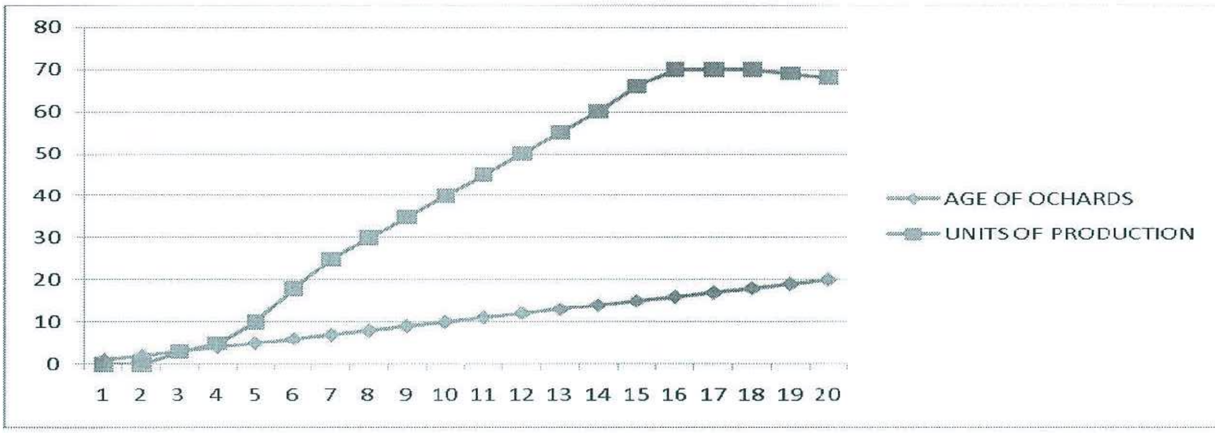
6.3.3. Decision making.

There is a definite line of control of the scheme by beneficiaries. Member of the management team interviewed are highly impressed about involvement of workers in the scheme's decision making processes. Before the scheme's establishment, beneficiaries were just mere farm workers for the Whitehall farm. Now they are legal owners of shares in Vuki Farming enterprise. The deed of trust clearly articulates governance of the scheme, rights and limitations of beneficiaries' as they participate in the scheme. Decision making powers are vested in the board of trustees, which are democratically elected by members during the annual general meeting. Voting right is a basic unit of power exercised by ordinary members of the scheme. Vuki farming is steered by two legal entities namely Vuki Rust and Vuki (Pty) Ltd. The board of trustees in Vuki Trust is all managers in Vuki Pty Ltd. High level decisions are made with the help of a consultant appointed to advice the operating company, which in turn advices the board on trustees on decisions regarding investments, procurement, financial and human resource management. Resolutions of the trustees are carried by a simple majority of the trustees present at the annual general meeting

6.3.4. Tenure security.

Management did confirm that tenure is not really secure. The farm provides housing for full time workers who are also beneficiaries of the trust. According to management, workers' tenure rights are protected by Extension of Security of Tenure Act (ESTA). Although full participation in the scheme is guided by the notarial deed of trust, there is no attention to tenure security in the trust deed. Most of beneficiaries of this scheme are people who were born and worked there for all their lives and have no plans of changing jobs or relocating to other farms. According to the deed of trust, on signing of the deed, a member becomes both a beneficiary of the scheme for a period of five (5) years, of which there is no guaranteed provision for renewal of membership. Members who resign automatically lose their shares ownership and status of residing on the farm.
However, if a worker retires while working for the scheme, a provision is made for his / her relocation to the farm's old age home. Here, he or she can reside for the rest of his / her life and even be buried on the farm's cemetery. Extended family member of retirees are not allowed to stay in the old age home. There are currently four retireries living in the farms' residential complex. Finally, it is technically generally understood that financial performance of agricultural enterprises is affected by a number of factors, including age of the scheme and market forces. Financial performance tends to decrease with ageing of and phasing out of resources like machinery and equipment, orchards and loss of productive experienced human resources through pension, death and resignation. This is clearly illustrated in figure 13 below.

Figure 13. The position of a majority of equity schemes in the fruit and wine life cycle.



Source: Vuki Farming, 2010.

The majority of equity schemes in the fruit and vine industry are in their early twenties and already suffering diminishing rates of returns on productive assets. There is a need for urgent replacement of orchards, machinery, equipment and buildings to boost production and maintain future income generating capability of the schemes.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

7.1. introduction.

Chapter one outlined and introduced the context and circumstances in which the study was done. Detailed background information on the research problem, questions of the study and how they were to be answered, study objectives, significance and limitations of the research was laid. Chapter two dealt with the origin of inequality in land distribution in South Africa, citing lessons learned from the historical land dispossessions. It looked at the advantages and disadvantages of the Willing Buyer Willing Seller and market related land reform, an event that led to the formation of joint ventures to curb the ever-increasing prices of land. Chapter three introduced equity-share schemes within the context of land reform and reviewed relevant policies on land reform, different criteria used to evaluate equity-share schemes and guidelines on analysis of financial statements. Chapter four was a description of the case study area, starting from the Western Cape province through to Overberg District Municipality and giving a detailed background on Vuki Trust and Vuki (Pty) Ltd. In chapter five objectives of the research were restated and emphasized, and then introduced and described the design and methodologies applied in conducting the research as well as the rationale behind choosing them. Chapter six dealt with research findings, by presenting the scheme's financial data and results from calculating financial ratios. It also gave an overview of perceptions by management and worker representatives, on the general performance of the case study. This chapter (seven) presents conclusions based findings of the research discussed in chapter six and made recommendations on the financial performance and perceptions of farm workers on the general performance of the scheme on wealth distribution, empowerment, gender equity, decision making and tenure reform. While the study by Gray et al, (2004) proposed a feasible set of indicators to gauge and monitor financial performance of equity-share schemes namely, profitability, liquidity, solvency and enterprise growth (Gray et al,2004), the aim of this study was to evaluate the extent to which equity–share schemes perform using a financial criteria proposed by Gray et al. In particular, the study sought to conduct ratio analysis on a set of financial records to evaluate how equity-share schemes achieve their financial and economic objectives for their intended beneficiaries. The case study Vuki Farming was used as a reference point. In addition, the study evaluated farm workers' and management's own perceptions on the general performance of Vuki Farming and other schemes of similar nature. This evaluation was based on assessment of performance in terms of RDP goals, namely, economic empowerment for workers, wealth distribution, gender equity, decision making and tenure security. Objectives of the study were informed by the current debate on performance of equity-share schemes under general and a review of what has been written on financial performance of equity-share schemes, drawing mainly from experiences gained from the study by Gray et al (2004), that examined financial statements and balance sheets of several equity-share schemes in the Western Cape to test certain financial indictors. To achieve these objectives, audited financial statements (income statement and balance sheet) were analyzed and various financial ratios computed (see annexures A and B and C). This secondary data was supplemented by interviews with management and and worker representatives (see annexure D). Interestingly, this section presents conclusions which tally squarely with original objectives of the study as stated above.

7.2. Financial performance.

On financial performance it is concluded that equity-share schemes were initiated when farming enterprises in question started experiencing financial problems and established as financial tplans to access easy finance from the government using land reform funds. Others were initiated as exit strategies, when orchards and other productive assets started loosing their productivity due to old age like Vuki Farming (figure 10). For that reason, profitability, as indicated in ratios, is often negative or constantly declining in most equity-share scheme (figure 9). Equity-share schemes do not realize their economic returns on investment. Dividends are seldom declared to beneficiaries of these schemes due to negative or insufficient profit margins to declare devidends. Furthermore, due to negative net current assets and lower than average current ratios, equity-share schemes will not be able to settle outstanding debts in case of liquidation and they often carry a higher financial risk due to higher financial leverage. Often, most of equity-share schemes are bankrupt. Worker income is only in the form of wages which are often higher that minimum used by management as strategies to retain workers despite lack of dividend payment. Normally, managers seldom respond quickly to request for financial information for fear of disclosure of disappointing financial performance in equity-share schemes.

7.3. Perceptions on general performance.

In addition, this study included an assessment of perceptions of management and farm worker representatives on the general performance of Vuki and other equity-share schemes in the area. Despite the disappointing financial performance and the negative perception leveled by academic institutions and other non-governmental organizations, management of equity-share schemes still perceive them as the only viable means of meeting RDP objectives using land reform programmes. They often claim that they are generally performing better than direct transfer of land. Contrary to that, the case study found that ownership of shares is transferred with productive assets but in most cases machinery and equipment have already finished their economic lifespan, orchards started to loose their full production potential and require complete replacement. Decision making by ordinary workers is limited. Entities are structured in such a way that decision making is centralized. Some of the trust directors are illiterate and cannot engage management in challenging situations. Fronting is still practiced when trustees are placed in committees but play very limited role when decisions are made. Women's rights are still undermined and women are still deployed in positions that require less decision making. Security of tenure is not guaranteed for beneficiaries of the scheme. There are no signs of wealth creation and the transfer of land is locked up in protective clauses of the notarial deed of trust. When workers resign or dismissed, their right of tenure automatically lapses and faces eviction from the farm houses. There is still disparity between male and female workers in terms of wages and responsibilities. Since most of decision making is centralized, wokers have limited control and power in the running of the scheme's businesses. Lower productivity of these schemes limit beneficiaris' potential of earning income through dividends and growth of their investments.

7.4. Overall conclusions.

The final conclusions are based on findings of the study summarized in chapter six of this report. Before citing the overall conclusions, it is imperative to mention that four years data is not long enough to conduct a detailed evaluation of the financial performance of a fruit enterprise. Twelve years data is enough to establish trends that will lead to fair conclusions on financial indicators. Firstly Vuki Farming, as an equity-share scheme is generally not profitable. It has not yet achieved the performance required to cater for its beneficiaries' expected financial interests in the scheme. Both net and operating profit margins are lower than inflation rate (CPI). The scheme is experiencing a negative return on investment. In terms of liquidity, its liabilities are larger than assets and have a poor solvency rate. Considering the escalation in the rate of inflation, the wages paid for workers are not enough for sustainable livelihood of their households. However, it is accepted that the scheme operates in an economically and technically turbulent environment, which strict policy and management interventions aimed at rather improving the situation than doing away with equity-share schemes considering the amount of money already invested in these schemes.

7.5. Policy recommendations and management interventions.

A studies with the most recommendations on equity-share schemes is that of the Surplus People's Project (Fast, 1999), that called for a complete overhauling of the government's policy on equity-share schemes. Since then, the DRDLR imposed a series of moratoria leading to the current moratorium on all land reform sub-programmes except for Pro-active Land Acquisition Strategy (DRDLR, 2010). However, a lot of focus has now shifted from funding of new projects to what must be done with underperforming ones. Vuki Trust is one of 109 land reform projects listed as distressed funded projects (DRDLR, 2010). Given the foregoing situation experienced from the case study and review of literature on equity-share schemes, the following recommendations are put forward to DRDLR and management of the case study for betterment of financial and general performance of the already funded equity-share schemes.

First and foremost, **additional financial support**: Management of the scheme can submit a comprehensive business plan to request funding for replacement of orchards, buildings, machinery and equipment to prevent the farm from collapsing. This will also enhance productivity and financial performance. Exploration of various ways of profit maximization and minimization of production costs such as establishing own packing facilities.

Third party monitoring and evaluation preferably by the DRDLR to find more information on the schemes performance. Monitoring is needed from identification of equity-share schemes through to implementation. This will ensure proper planning and prevent opportunism and conflict of interests in financing, which are more prevalent.

Improvement of gender equity and power relations by not only appointing more women into management positions but also involving them in key decision making activities.

Seeking more **alternative business models** than just equity-schemes and giving incentives to workers by **declaring dividends** even when the project realizes slightest profit margins.

Last but not the least, **continuous training and capacity building** on the part of management, trust committees and beneficiaries on technical production and good management practices required for successful running of farm worker equity-share schemes.

Annexure A: Summary of income statements for Vuki (Pty) Ltd, 2006 to 2009.

ITEM	2006	2007	2008	2009
Revenue	12.992.349	16.959.278	23.056.556	19.133.732
Expenditure	(11.282.751)	(14.963.485)	(20.120.513)	(19.125.661)
Gross profit	1.709.597	1.995.793	2.936.043	8.071
Other income	1.265.022	170.351	150.474	490.517
Other expenses	(1.690.146)	(1.350.814)	(1.249.180)	(1.562.349)
EBIT	1.284.473	815.33	1.837.337	(1.063.761)
Interest and tax	-329.079	-413.157	-523.455	-523.455
Net profit	955.394	402.173	1.016.317	(1.400.582)

Source: Vuki Farming (Pty) Ltd
2009

Annexure B: Summary of assets and liabilities for Vuki Farming, 2006 to 2009.

	6006	2007	2008	2009
ITEM				
Assets				
Non current assets	1.596.329	1.057.494	1.067.134	1.784.576
Current assets	3.364.929	3.611.232	2.479.525	2.279.196
Total assets	4.961.258	4.668.726	3.546.659	4.063.772
Liabilities	**2006**	**2007**	**2008**	**2009**
Equity	-241.725	160.448	1.176.763	-223.819
Liabilities				
Current liabilities	5.202.983	4.508.278	2.369.896	4.287.591
Total equity and liabilities	4.961.258	4.668.726	3.546.659	4.063.772

Source: Vuki Farming,
2009.

Annexure C: Results of financial ratio calculations for Vuki (Pty) Ltd, 2006 to 2009.

FINANCIAL INDICATOR	FINANCIAL RATIO	2006	2007	2008	2009
Profitability					
Gross profit margin on sales	Gross Profit / Sales	13 %	11.7 %	12.7 %	0.042 %
Net operating profit margin	EBIT / Sales	9.8 %	4.8 %	7'9 %	-5.5 %
Net profit margin	Net profit / Sales	7.3%	2.37%	4.4%	-7.3%
Return On Assets (ROA)	Net Profit / Total Assets	1.9%	8.6%	28%	-34%
Dividend Return[1]	0	0	0	0	0
Liquidity					
Current Ratio	Current Assets: Current Liabilities	0.6:1	0.8:1	1.5:1	0.5:1
Net Current Assets	Current Assets -Current liabilities	-R1838 054	-R897 046	-R169 629	-R2 008 395
Debt management ratios					
Debt Ratio[2]	Total Debt / Total Assets	0.16:1	0.16:1	0.17:1	0.18:1
Times Interest Earned	Net Profit / Finance Cost	0	0	0	0
Worker income[3]					
Dividends	Dividends + total wage bill + interest received + capital gains	0	0	0	0
Total wage bill		R2647503	R2409639	R2846848	R3126464
Interests received		0	0	0	0
Capital gains		R160448	R159448	-R223819	-R224819
Wages[4] Highest wage paid to unskilled labour	Dividends, capital gains, wages, other benefits and interest received by workers,	Minimum wage R1500. No dividends	Minimum wage R1500 No dividends	Minimum wage R1500 No dividends	Minimum wage R1500 No dividends

[1]No dividends were declared since the scheme started.

[2]A debt of R3m not recorded in Vuki Farming (Pty) but appears in Vuki Trust.

[3]Worker income = total wages for the year + total dividends + total capital gains + interest receive.

[4]Minimum wage is R1000 for farm workers in the area and R1500 maximum.

Source: Vuki Farming (Pty) Ltd., 2009.

Annexure D: Interview schedule.

INTERVIEW SCHEDULE

FOR

EVALUATION OF THE FINANCIAL PERFORMANCE OF FARMWORKER EQUITY SHARE SCHEMES WITH REFERENCE TO VUKI FARM IN THE OVERBERG DISTRICT OF WESTERN CAPE PROVINCE

MEETING WITH MANAGEMENT OF THE PROJECT

DATE:...................................

PLACE:...................................

TIME FROM:................. TIME TO:.................DURATION:.......................

ITEMS:

1. Opening remarks
2. Introduction of participants.
3. Background to the research.
4. Aims and objectives of the interview.
5. Ethics.
6. Discussion of the financial performance of the project:
   - o Profitability
   - o Liquidity
   - o Return On Investment.
7. Word of thanks.
8. Closing remarks.

MEETING WITH FARM WORKER REPRESENTATIVES

DATE:………………………………

PLACE:……………………………..

TIME FROM:…………….. TIME TO:……………..DURATION:……..…………

ITEMS:

1.Opening remarks

2.Introduction of participants.

3.Background to the research.

4.Aims and objectives of the interview.

5.Ethics.

6.Discussion: Perceptions on the general performance of the project:

- Economic empowerment
- Gender equity
- Decision making
- Tenure security.

7.Word of thanks.

8.Closing remarks.

ATTENDANCE REGISTER

NAME	SURNAME	GENDER	AGE (YRS)	TEL. NO.	INITIALS

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