

## Executive Summary – Phase One: Organisation Performance Evaluation

### 1. Introduction

- This summary will present the findings of the performance review of Phase One of the review programme. The research was undertaken by two groups, namely by Dr Martin Fisher assisted by Dr Gerhard van Wyk, and Mr Stephen Wetmore from RAINN (Resources for African Innovations), and his research team.
- During the period 1998 to 2007, the South African Wine Industry Trust (SAWIT), in terms of its constitution and mandate, using its business units, namely BUSCO and DEVCO and WIECO, made grants to different organisations. This report will present a review of organisations funded through BUSCO, DEVCO, and WIECO.
- In 2007, SAWIT commissioned the performance review of these organisations. Since the scope and range of the organisations was fairly large, it was decided to undertake the process in three phases. This executive summary will present reviews of Phase One. Phase two is anticipated to be completed during July 2008 and Phase three before September 2008. Phase two will complete the evaluation of all projects and phase three will be a specific focus group study of direct beneficiaries.

### 1.1 Research Methodology

The process we followed made use of a rapid scan to define the current reality in which the different organisations/beneficiaries operated so as to better understand their performance in relation to supporting SAWIT's overall purposes and agenda. In doing so, the following methodology was followed in order to capture and frame all relevant information:

1. Original proposal and contractual documentation as submitted to SAWIT as well as all documentation provided by the different organisations/beneficiaries.
2. Interviews with both senior managers and/or personnel
3. Site visits offices to ascertain level of infrastructure provision and interviews.
4. Desk top studies, analysis of documentation submitted to us containing, project lists, Members Data Base, all Financial Statements, but especially those from 2004 – 2007.

5. We requested that three questionnaires be completed and returned to us within 14 days.
6. The study was limited to the information (i.e. financial statements, and information from interviews) that was made available by the organisations/beneficiaries and could be obtained within the time period allocated.

## 1.2 Contextualisation - SAWIT

### 1.2.1 Introduction

The following text represents a summary of the formation of SAWIT as seen by researchers. It also contains inputs made by different people during the course of the research interview phase of this assessment. As such, it represents the collective views of those interviewed during the research process.

All change process basically has two elements that determine its successful or acceptable outcome. The one element is the pace at which change takes place. For some the pace is too slow and can become the cause of serious dissatisfaction, or even deep levels of mistrust among those who are managing the process. For others, the pace can be too fast, bringing about change fatigue, the questioning of decisions based upon a lack of information and in general an element of mistrust. It is the old conflict between the revolutionary and the evolutionary paradigm of change.

The second element is *direction*. When any change process is proposed, it will be important for those who will be managing the change, to be able to agree on the direction before they start out. It would appear that those who envisaged the future of the South African Wine Industry Trust did not have agreement concerning these two elements. The first years of the trust's existence is reflective of this reality.

### 1.2.2 Context and Change

All events take place within a context. The formation of SAWIT and its subsequent impact was interactional in essence and influenced by individuals and groups who sought to realise the best possible outcome, while informed by the limited perspectives of their own group or personal expectations. Most of the role-players had no scripts to work from and, without any preconceived projections of their singular and collective roles, they were somewhat unconscious of the centrality of the different roles they had to play in this particular transformation process.

Reading through the minutes of the earlier meetings of the trust creates an image of a group of people who were well-intentioned, in many ways altruistic in their approach, yet unable to find themselves in agreement with the general direction in which SAWIT needed to go.

Any attempt to understand SAWIT's present position will have to consider the context in which it was set up and the structural arrangements which dominated its functioning. There is no attempt in this narrative to be definitive to the finest detail but rather to present a descriptive narrative that will allow the reader to understand the passage through which SAWIT moved, in order to become the organization it is today.

The narrative that follows will seek to highlight the most important changes that took place between the founding of SAWIT and where it finds itself today. In many ways the development of SAWIT is a reflection of the dominant personalities who sought to bring about change within the wine industry and by extension, those most affected by its functioning.

### **1.2.3 Structure and Transformation**

In a more general sense, the purpose for the establishment of SAWIT was for the transformation of the wine industry. That there were differing views as to what transformation actually meant, the time-frames under which transformation would happen, the mechanisms that would enable the transformation, were not clear, nor were the expectations shared or mutually understood.

The persons who entered into the process were themselves optimistic and buoyed by the positive transformation process following 1994. It seemed as if the positive mood which enveloped most sectors of society at that time, would perforce find its way into the transformation of the wine industry itself and, being a key industry in the Western Cape, had the potential to represent a model for systemic transformation.

A protracted problem with which the trust members had to deal with in the early days, was the more overt political agenda brought to the trust by ministerial appointments in contrast to the more business and production focused approach brought to the trust by those representing the industry, particularly KWV. This meant that there were two sets of expectations that needed reconciliation. Ultimately BUSCO and DEVCO reflected structurally these two perspectives.



many ways this confidence was misplaced in that the KWV leadership did not see the political shift take place, where the emphasis shifted toward economic transformation rather than personal and social enablement processes.

### 1.2.5 SAWIT's Trust Deed and Future Change

The original Trust Deed set up a scenario in which two different approaches to change faced each other with two different agendas. Although the Trust Deed reflected the legality of the Trust, its structures and beneficiaries, what it did not indicate was the functional activities that would be put in place to activate process, those that would connect the Trust with its intended beneficiaries.

Much of tension during the first year of the Trust that was generated between the ministerial and the KWV Trustees, emanated from the disparate views concerning the funds and their use. To add to this tension was the fact that many of the ministerial members of the Board were somewhat poorly informed of the intricacies of the wine industry, while board members of KWV wished to ensure the best use of the funds now at the disposal of the Trust for specific industry foci. The differences between these two groups were distinctly seen in the measure to which funds were allocated to commercial changes, export promotion and research, as opposed to the more definitive focus on social and economic transformation of previously disadvantaged groups.

The Trust itself made provision for the establishment of six mechanisms that would ensure the aims and objectives of the Trust were achieved. Funding for the different units was ring-fenced to ensure continuity. Administration, Technology and Research, Removal of Surplus Wine, Bursary funding, and Social Development and Upliftment. These were to become the means through which the trust would express its intent. These functions were initially delivered through two subsidiary Section 21 Companies - BUSCO and DEVCO, each with their own Boards of Directors, comprising both KWV and Ministerial appointments as well as representatives from the Wine Industry.

A significant change occurred in 2005 when the Trust Deed was changed. This change coincided with the exit of KWV Board Members. It also ushered in a new era of renewed optimism as new Board Members were elected, who were more representative of the industry and the wider community associated with the wine industry.

The Board now comprised persons representing, Trade, Wine Producers, Labour, Civil Society, and Independent persons from outside the Wine Industry, with a focus on representivity of women.

The new Trust Deed ensured that the focus of SAWIT shifted to achieve some semblance of balance between its previous commercial undertakings, and shift toward a more substantial investment in transformation of the Wine Industry itself. In addition to this, the restrictive division of the percentage of funding was changed to reflect the new direction of focus.

More specifically, SAWIT was mandated with the following two primary objectives:

- Transformation and growth of historically disadvantaged individuals within the South African wine industry;
- Commercial development and promotion of the South African wine industry to ensure global competitiveness and sustainability.

In order to fulfil its key objectives, SAWIT used the following mechanisms to forward their activities:

- **BUSCO** is essentially a Wine Industry Business Support Company. It's focus is on research, technology transfer, and development with the additional emphasis on the promotion of international generic wine export.
- **DEVCO** is established to be a Wine industry Development Support Company. Through different programmes and using different agencies, it precipitates social transformation through direct support and intervention.
- **WIECO** was established to be a Wine Industry Empowerment Company. It's primary focus is the promotion and facilitation of the economic empowerment of previously disadvantaged communities through ownership changes, capacity building, the development of management structures and increasing their access to economic activities and infrastructure.

In and during 2004, KWV entered into an empowerment transaction by selling 25,1 (twenty five comma one) percent of its issued share capital to an empowered consortium ("the transaction"), 18,224 (eighteen comma two two four) percent of which were sold to Phetogo Investments (Pty) Ltd ("Phetogo"), while 6, 776 (six comma seven seven six) percent were sold to the KWV Employee Empowerment Trust ("Keet"), who holds its shareholding directly in KWV. See Diagram on the following page. Phetogo Investments (Pty) Ltd, comprised the following shareholders: NAFU = 7.57%, Kumnandi = 12.32%, BAWSI= 32.25%, EPA = 12.32%, SALTA = 7.54%, Phetogo Holdings = 26.03%. (See diagram on page 10)

The two principal financiers of the transaction were the Industrial Development Corporation ("IDC") and Sawit, while KWV paid for 5 of 6,776 percent of Keet's shareholding. In addition to these loans, Sawit provided soft loans to Bawsi, to Nafu and to Kumnandi enabling them to participate in the transaction.

All the KWV shares issued to Phetogo as well as all the Phetogo shares issued to its shareholders were ceded to IDC until all the IDC loans are repaid, after which the security of shares will revert to SAWIT.

### 1.2.6 Decision to Refinance

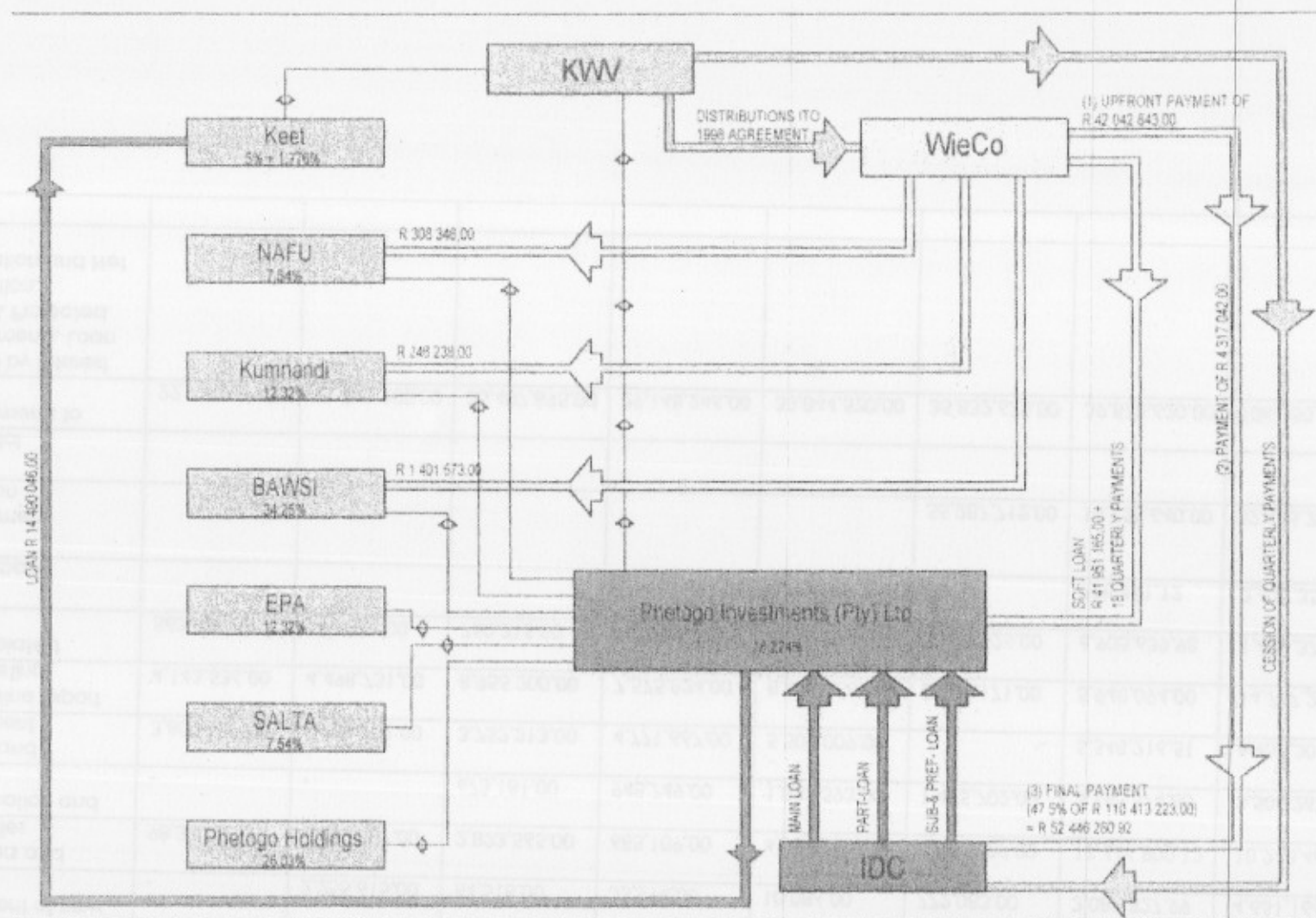
During July 2006, the SAWIT Trustees decided to exit the transaction by refinancing its loans to Phetogo. (This essentially means replacing SAWIT with another financier within Phetogo). Sawit was approached by various entities, including, but not limited to financial institutions, community groups and asset management companies, with offers to refinance its loans. After protracted discussion, by March 2007, SAWIT had identified two potential re-financiers, namely Trilinear Specialised Services and CEBI Capital.

Considering the various options available to Sawit, it identified the most salient risk as being not securing a buyer, without the loans being coupled with some form of equity. SAWIT appointed a refinancing task-team under the chairpersonship of Prof. Kadar Asmal to bring the refinancing process to a satisfactory conclusion. This team currently anticipates the process to be finalised within the next three months.

The table below presents a summary of income and expenditure, indicating those categories funded by SAWIT since 2000, while the diagram on the following page the financial arrangements surrounding the Phetogo Empowerment Transaction.

	Category	2000	2001	2002	2003	2004	2005	2006	2007	Total
1	SAWIT operational/admin expenditure	1,810,272.00	1,164,396.00	1,322,933.00	2,351,898.00	2,578,144.00	3,886,239.00	6,044,669.00	5,228,708.00	24,387,259.00
2	Establishment of new Farmers	-	2,255,615.00	64,518.00	35,214.00	10,086.00	772,083.00	3,082,827.99	4,651,166.16	10,871,510.15
3	Farmworkers and Communities	98,300.00	1,900,687.00	2,823,565.00	683,109.00	4,560,260.00	6,875,829.00	11,666,800.12	10,243,486.54	38,852,036.66
4	Wine Education and Training	-	-	673,181.00	948,749.00	1,833,593.00	1,475,702.00	3,165,574.80	3,506,267.07	11,603,066.87
5	Research and Development	3,800,967.00	3,684,151.00	3,752,313.00	4,771,667.00	5,504,009.00	-	5,548,216.51	6,457,307.19	33,518,630.70
6	Generic Wine Export and Marketing	4,143,536.00	4,498,731.00	8,955,200.00	7,575,824.00	8,454,286.00	5,506,171.00	5,940,094.00	14,747,270.34	59,821,112.34
7	Industry Related Support	563,468.00	596,354.00	750,315.00	281,820.00	1,398,030.00	3,459,526.00	6,905,639.98	1,484,377.39	15,439,530.37
8	Project Support							728,441.12	2,647,358.57	3,375,799.69
9	Phetogo Empowerment Transaction						55,287,712.00	18,750,640.00	52,446,280.92	126,484,632.92
	Grand total									324,353,578.70
	KWV payments to SAWIT	22,759,649.00	21,768,202.00	25,407,895.00	29,148,246.00	32,844,520.00	35,832,675.00	39,873,620.00	106,350,108.00	313,948,915.00
	Financed by Interest on Investments, Loan funding & Projected Participation, Depreciation and Net Vat									10,404,663.70







### 1.2.7 SAWIT and the Future

SAWIT has played a meaningful role and, from our first-hand experience, it has affected people's lives positively in many different ways. Many challenges relating to empowerment, enablement, evictions, community building, labour matters, social injustices have been influenced positively by SAWIT grants and intervention processes. It would be impossible to adjudge the net worth of all these interventions. It would be irresponsible to discount the impact that SAWIT has made over the years. Transformation is a long-term process which starts with interventions such as those started by SAWIT. What has begun, requires constant support and encouragement and further strengthening. If social change is to be meaningful, those interested therein, need to understand that there is no "quick-fix. Transformation means empowerment, enablement and alignment – and none of these are events, they are part of a conscious effort to embed deeply personal and socially sanctioned developmental processes.

The setting up and facilitating SAWIC (South African Wine Industry Council) was a huge step forward. It would appear that many of those who participated in setting up the Council did not fully appreciate the centrality of their roles! The effort it took to establish the Council produced a wide range of learning experiences for many different interest groups. In the face of the demise of the Council, it would be a shame if all this learning was either lost or discounted. From the evidence before us, we propose that the SAWIC be placed in a "parking lot", so that when the moment is right and different role-players are ready, and the necessity arises, its structure, charter and intent can be realised to be mutual benefit of all participants in the economic benefits of the Wine Industry. The trustees felt that SAWIC has a strong commercial role and SAWIT a developmental one. Government and stakeholders see SAWIT as the transformation agent, a role not necessarily ascribed to the Council. However, the functions of the Wine Council give it a developmental function in addition to being the mouth-piece and representative body for the wine industry.

The following strategic issues have been under review and remain pertinent to the future direction of SAWIT.

- a) To play a strategic role between Ministry and Wine Industry (a political watchdog) and give strategic leadership and guidance to the industry as well as creating a prosperous environment where SAWIT can enhance transformation & empowerment.
- b) Play a monitoring and facilitating role on development and transformation targets especially in terms of land reform and ownership.
- c) Project development and disbursement.

- d) Focus on transformation and development gaps that fall outside of Wine Council remit.
- e) Drive transformation and empowerment initiatives.
- f) Be an industry donor and develop re-capitalisation strategies to ensure financial sustainability for SAWIT and industry priorities.
- g) Create a smaller office – less trustees 4-5
- h) In addition to the above strategic decision the Trustees also adopted the "Statement of fact in respect of the refinancing of the South African Wine industry Trust, Loans and the transfer of the Bawsi and Nafu equity in Phetogo Investments (PTY) LTD"

## 2. Performance Review - Phase One:

During this first phase of the Performance Review, it was decided that the following organisations be selected for the performance review, since most of them had received more than R1m, and in some instances substantially more.

Together, Phase One represents a significant investment on behalf of the Wine Industry Trust totalling more than R100m. For example Wines of South Africa received approximately R49 million and Winetech about 34 million. A more detailed costing of projects funded will be provided after the project evaluations are completed.

1. WOSA – Wines of South Africa
2. Winetech – Wine Industry Network of Expertise and Technology
3. FASfacts
4. DOPSTOP
5. CRLS – Centre for Rural Legal Studies
6. VABO Horizon Project
7. NAFU – National African Farmers Union
8. Omaza Farm Worker's Trust
9. FARR – Foundation for Alcohol Related Research
10. BEE Wineries
11. Wine Education Exchange Programme
12. RUDNET – Rural Development Network
13. BAWSI – Black Association of the Wine & Spirit Industry

Documents submitted 6<sup>th</sup> June.  
To be completed July 2008

Despite having initiated the review process in February 2008, the last two mentioned organisations are not included in this report. Their tardiness in this respect is based upon their indicating that they are in the process of finalising their records, reports, questionnaires, strategic planning

documents outlining programmes or projects and accounts. It was during the past week (1<sup>st</sup> June) that there arrived some agreement around meetings and documentation.

The other external evaluator (RAINN: Mr. Stephen Wetmore) is in the process of completing the following reports which will be integrated into the final consolidated report. These individual reports will be available from the SAWIT offices by 30 June 2008.

1. Phetogo.
2. Groenberg/Kweekvlei.
3. All the Bursary programmes.
4. The international exchange programme between SAWIT and the United States of America Wine Foundation.
5. Farms which received funds for feasibility studies and business plan development.

The following organisations are currently being evaluated:

- 1 Bell Valley Initiative
- 2 Women on Farms
- 3 Vukuzenzele Agricultural Initiative

The evaluation of the following organisations will commence in early July 2008

1. BAWSI
2. RUDNET

## **BUSCO Funded Organisations**

### **3. WOSA – Wines of South Africa**

WOSA is funded from two sources:

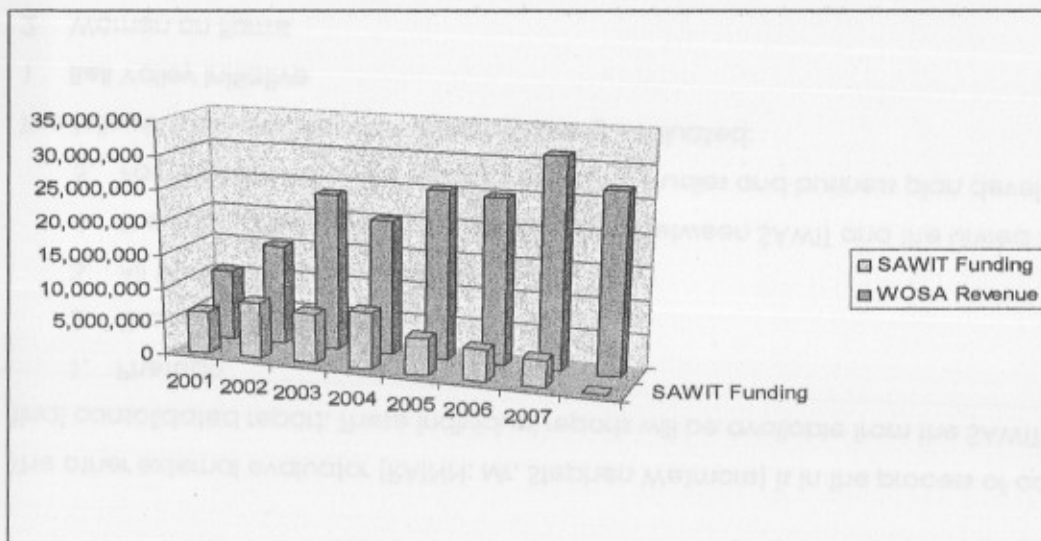
- ☐ A levy per litre is raised on all bottled natural and sparkling wines exported.
- ☐ From 2001 to 2006/7, South African Wine Industry Trust (SAWIT) contributed about R49.0m to WOSA. The graph below displays SAWIT's funding contribution relative to the total revenue received by WOSA.

From 2001 to 2007 WOSA's income was R178.8 million. The total revenue which accrued to both producers and government during this period totalled R5 686.3million. In terms of the macro economic picture, WOSA's budget represents 0.318% of this total income. It would seem that the growth of exports over the years more than justified the establishment and funding of WOSA.

For further reading on the importance of the Wine Industry to South Africa see Appendix E, (Macro-Economic Impact of the Wine Industry on the Western Cape).

As an active marketing tool for the Wine Industry, WOSA appears to have played a significant role in ensuring export volumes as well as creating a image of South Africa that was both positive and welcoming. The graph below, (figure 2) illustrates revenues that accrued to both the producers and the state between 1991 and 2006. It also illustrates a strong need to develop a more effective dialogue between government and the wine industry, with a definitive focus on marketing research and export facilitation.

Since the 'spin-offs' of marketing "Brand South Africa" are multi-layered, such a dialogue should consider different mechanisms to finance market research, bursaries for PDI's, who wish to undertake studies in international marketing with the focus on the Wine Industry, thus ensuring



that South Africa does not reach a "fall-behind-point" from which it will take years to recover. The graph (figure 1) indicates SAWIT's funding for WOSA's activity arrived during a period when WOSA's income from other sources was less than half the levels of its current funding. It would be wrong to overlook the importance of the relationship between the two sources of funding as illustrated in Figure 1.

Once a group of people in sufficient numbers and with adequate resources work together toward a goal, they create momentum. Once it gathers speed it is difficult to