How wine fund was bled dry

The SA Wine Industry Trust (Sawit) was granted hundreds of millions to fund black entry into the white-dominated wine sector. But a decade of lavish spending and questionable loans bankrupted the trust and has done little to improve the lives of the Western Cape's farmworkers and black farmers. Stephan Hofstätter investigates.

AGRICULTURE MINISTER DEREK Hanekom made few friends in the wine establishment when he opposed KWV's 1996 application to convert from a cooperative to a private company.

Hanekom argued some of KWV's assets had been built up using its powers to regulate prices and collect levies from producers. A unilateral conversion was tantamount to privatising state assets. KWV countered that government had contributed nothing to KWV's wealth, so its assets should be distributed among its grape growers and employees.

In the end a compromise was reached. KWV agreed to pay R369 million in quarterly tranches over 10 years into a trust that would support a range of industry needs, including vine research and export promotion. Crucially, the trust was also meant to play a pivotal role in funding black participation in the industry.

The SA Wine Industry Trust (Sawit), which held its first board meeting in March 1999 under chairperson Michael Fridjhon, Hanekom's advisor, soon came under fire for not doing enough for transformation. Fridjhon concedes Sawit could have spent its empowerment budget more efficiently, but points out it was hamstrung by its trust deeds, which had to be amended to allow it to fund BEE transactions directly.

Three months later, when Thabo Mbeki took over as president, Hanekom was summarily axed. He was replaced by 28-year-old Thoko Didiza, a virtual unknown at the time. Political commentators pointed out Didiza, a close ally of Mbeki's, was given what the president considered a relatively minor cabinet posting to groom her for greater heights, possibly even the presidency. By all accounts tensions were rife between Didiza's officials and Hanekom's remaining appointees, including Fridjhon.

- The IDC loaned Sawit money in a way that deprived Sawit of its cash flow.
- Fees paid to Sawit trustees and directors almost tripled from 2001 to 2006, while funding of worker projects stopped.
- Money paid to worker's organisations is unaccounted for.

Didiza immediately pushed for a far stronger transformation focus for Sawit. In 2002 she removed Fridjhon and five other trustees. Their replacements included Western Cape Black Management Forum president and CEO of African Renaissance Holdings, Gavin Pieterse, as chairperson; Cape Town mayor Nomaindia Mfeketo and wine writer John Platter. ANC stalwart Kader Asmal joined them two years later.

The same year KWV and Distel formed the SA Wine and Brandy Corporation, with the intention of modernising and democratising the industry while bringing it in line with the government's black empowerment plans for agriculture. Representatives were drawn from growers, processors, merchants and labour. A little-known group calling itself the Black Association for the Wine and Spirits Industry (Bawsi) emerged as a self-declared voice of labour and civil society.

Didiza gave the keynote address at a wine empowerment conference held at the Cape Town International Convention Centre in October 2003, which set the scene for what was to follow. "Sawit's developmental initiatives do not yet have the necessary impact with respect to BEE," she told delegates. "Government will be looking at the trust deeds and the board of trustees to see how best to address [this]."

Black diamonds

The following year Sawit brought together BEE consortium Phetogo Investments which, together with a KWV workers trust, would buy a 25% chunk of KWV for about R210 million. Phetogo, consisting of several individual investors and companies, the Western Cape branch of the National African Farmers Union (Nafu) and Bawsi, would hold 18% and the KWV workers trust the remaining 7%.

The byzantine nature of the funding model, reconstructed by *Farmer's Weekly* from several documents and interviews, contributed to Sawit's later insolvency. The Industrial Development Corporation (IDC) made three loans to Phetogo totalling R121,5 million. Sawit secured these loans,

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Who gets the money?

Attempts by the Western Cape branch of the National African Farmers' Union (Nafu-WC) and the Black Association of the Wine and Spirits Industry (Bawsi) to sell their sizeable chunk of Phetogo, worth at least R60 million, led to widespread complaints that their leaders were out to enrich themselves.

Bawsi president Nosey Pieterse says these charges come from industry leaders alarmed the association funds "organisations of the masses". Bawsi organises demonstrations against farmers accused of abusing workers and offers workers legal aid to fight evictions. "Activist work costs money," he says. But sources within Bawsi and other social movements it funds told *Farmer's Weekly* they strongly opposed his bid to sell the KWV shares and say Bawsi can't properly account for how it spent over R200 000 a month received from Sawit. Pieterse declined to make Bawsi's financial records available to *Farmer's Weekly*, making it impossible to verify how the money was spent. Pieterse's claims to represent "tens of thousands of workers" have also been questioned by several sources, including black vintners who did not want to be named and Oxford academic Gavin Williams in an article in the *Journal of Agrarian Change*.

Nafu-WC's claims and credentials look even more suspect. Documents in *Farmer's Weekly's* possession show Sawit channelled funds for Nafu's stake in KWV and over R1 million in operational expenses through an entity called Zamori 173. Despite being listed as Zamori 173 (Pty) Ltd in Sawit's financial statements, the entity is not a registered company. Several sources have told *Farmer's Weekly* Zamori is a private trust controlled by Nafu-WC president Willie Williams and two other individuals for their own benefit. A senior empowerment figure claims they have "hijacked Nafu's name for their own ends". Last year *Noseweek* reported Williams, who is also a Sawit trustee, "is suddenly looking good, with a new car and a new house".

When contacted, Williams declined to respond to the allegations, or supply *Farmer's Weekly* with any evidence of Nafu-WC's membership base and how funds it received from Sawit had been disbursed for their benefit. Detailed questions, and a request to see Nafu-WC's financials and supporting documents, were ignored. It was therefore impossible to establish who has signing powers to withdraw and disburse the trust's funds, what the money was spent on, and who controls Nafu-WC's KWV shares worth R16 million.

AGRICONNECT

STEPHAN HOFSTÄTTER

LEFT: Nafu-WC president Willie Williams controls a private trust that owns KWV shares worth R16 million, and reportedly splashed it out on a new house and car.

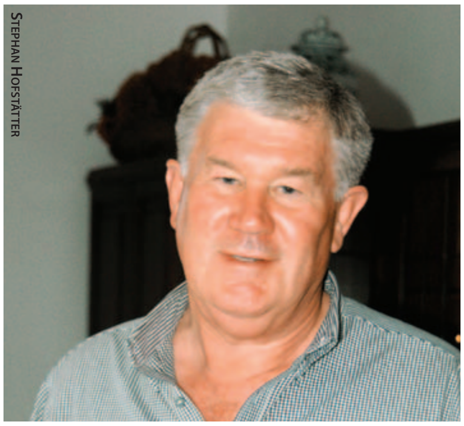
RIGHT: Bawsi president Nosey Pieterse won't let us see his books, so we can't tell how he spent the millions received by his association.

BELOW: In 2004 Sawit spent only R10 000 on establishing new wine farmers – and R1,14 million on a single conference.

Spending priorities

Sawit's financial statements and supplementary reports dating back to its inception, seen by *Farmer's Weekly*, show how lavish banquets and generous directors' fees increasingly took priority over empowering farmworkers.

- In 2003 Sawit organises a BEE conference at Cape Town's International Convention Centre. Thoko Didiza gives the keynote address. The event is listed in Sawit's 2004 annual report under the heading: Farmworkers and communities. It cost R1,14 million, a quarter of the line function budget, and one of that function's largest single expenses of the year.
- The same year 20 listed community beneficiaries, including several literacy projects, a foetal alcohol syndrome awareness programme and a minimum wage advice project, get nothing.
- The same year expenditure on establishing new farmers dwindles to R10 000 – down from R2,1 million in 2001.
- Sawit's entertainment budget trebles from R10 000 in 2001 to R33 000 in 2005, then jumps to R560 000 in 2006.
- Fees paid to trustees and directors increase from R42 000 to R1,2 million from 2001 to 2006.
- Travel and accommodation costs increase from R126 000 to R742 000 from 2001 to 2006.



Michael Fridjhon (left) criticised the KWV deal spearheaded by Gavin Pieterse and Danie de Wet (middle), with Thoko Didiza's (right) backing, for bankrolling black diamonds but doing little for farmworkers.

partly by ceding the IDC almost half its quarterly payments from KWV, and partly through upfront cash payments and soft loans to cover the remaining amount. KWV funded the bulk of its worker trust's shares with a soft loan, with the remainder paid for by a loan from Phetogo.

Sawit's payments to the IDC were repayable by Phetogo from future KWV dividend streams at soft terms, once Sawit had settled the IDC debt. This meant Sawit was in effect heavily subsidising the IDC's interest rate. As far as could be established, none of the shareholders, who included ex-Post Office CEO Khutso Mampeule and eTV chief executive Marcel Golding, put any of their own money on the table.

The arrangement therefore offered the BEE shareholders a low-risk investment on very generous terms, including a 1% interest rate on over half the capital amount and 6% for the rest, with interest only accruing once Sawit had settled the IDC debt in full.

flow crisis that resulted in payments for vital industry functions being stopped, including vine-disease research and foetal alcohol syndrome awareness programmes.

Several sources claim Sawit acted on advice contrary to its interests. Calls were made last year for an investigation to be launched into the role of the IDC and Sawit's legal and financial advisors in structuring the deal, but nothing has come of this. Speculation is rife Pieterse, a key architect of the deal, was assured by Didiza that Sawit could afford to blow most of its reserves on a single BEE deal because it would be recapitalised by €15 million (R170 million) the European Union pledged to pay SA as compensation for phasing out the use of the names port, sherry, grappa and ouzo. The deal has yet to be ratified, so no money has been forthcoming. Moreover, Phetogo's claims to represent the sector have proved hollow. Although some individual investors are reportedly involved in the wine and

'Spending millions on directors' fees but very little on farm or community projects, Sawit started to run out of money.'

Today the total value of their shares is estimated at R380 million, which means individual shareholders stand to make a tidy profit should they opt to sell. The deal also enabled KWV to pay for its own empowerment credentials with the money it had paid to Sawit. But it held no intrinsic value for Sawit.

A key flaw was the IDC's demand that it would own all Phetogo's shares until all its loans were repaid in full. This meant neither Phetogo nor Sawit could use them as security or collateral, or benefit from dividend flows, even after the larger loans had been repaid, leading directly to a cash

spirits industry, the majority are not. And neither Bawsi nor Nafu Western Cape, which owns its shares through a private trust called Zamori, can substantiate claims of representing thousands of farmworkers and black farmers. Nor can they adequately explain how the millions they received from Sawit were spent on their supposed constituencies **(see box: Who gets the money?)**.

Fridjhon has always been a vociferous opponent. "It was never our intention to fund black diamonds to buy shares in KWV," he explains. "Gavin Pieterse was not acting with the interests of the industry at heart. This [deal] made a lot of people rich, with no benefit to anybody except KWV."

Pieterse retorts he's an economic activist and would do the deal again if given the chance. "It's always about the bigger good," he told *Business Report*. "Prior to 1994, [this good] was in the political arena. [This situation] is exactly the same thing because we have not delivered on economic transformation."

KWV chairperson Danie de Wet, who together with Pieterse spearheaded the deal, still believes it was the most efficient way to spend Sawit's empowerment budget. "I met minister Thoko Didiza and told her: in five years the money will have gone, with nothing to show for it," he says. By funding a 25% empowerment stake in KWV, Sawit would make a major contribution to transforming the sector and get its money back within 10 years, he told her.

Lavish lifestyle

In any event, Sawit continued making lavish outlays – including millions spent on salaries and directors' fees but very little on farm or community projects – and began to run out of money **(see box: Spending priorities)**.

It approached KWV to guarantee a R5 million loan in late 2005 and a R10 million loan early the following year. De Wet grew worried when grape producers' organisation Vinpro informed him it had received similar requests. In March 2006 KWV agreed to pay out Sawit's remaining tranches in a R110 million lump sum, incurring a R18 million penalty. Three months later Pieterse left to focus on his private business, and was replaced by Motheo Housing Group chairperson Thandi Ndlovu.

A fatal flaw in the IDC arrangement now became apparent. The IDC regarded the move as a breach of agreement, and demanded immediate payment of the debt outstanding on its main loan of R80 million, guaranteed by KWV's quarterly payments.

Sawit settled with a R52 million payment, apparently under the mistaken impression that Phetogo's shares and dividends would now become available as security and to pay off the shareholder loans. In reality this could only happen once the IDC's subsidiary loans, worth about R25 million, had been settled too. As a result, Sawit ran out of money and was forced to find an investor to refinance its loans **(see box: Cracks in the consortium)**.

Nothing to show for it

De Wet believes Sawit's trustees and management, including CEO Charles Erasmus, should be held accountable for irresponsible spending. "Where has the money gone? On consultants and projects. What do we have to show for it? Nothing."

Erasmus and Ndlovu declined to be interviewed on the subject, but a wide range of industry players, including several black winemakers desperate for support, agree with De Wet. They say Sawit squandered its vast resources by funding the lavish lifestyles of its members, paying excessive fees to consultants, and making questionable loans, grants and bursaries. "Sawit has paid a lot of consultants to tell us how to transform the industry but we see no results on the ground," says Abelia Lawrence, CEO of empowerment label Blouvlei.

In the winelands tales abound of Sawit beneficiaries, consultants or members – often the same people – living the high life. "Guys with a letterhead and fax machine who drive around in fancy cars claim to represent farmworkers," says a senior ANC MP. "Then they want to be populist and blame landowners for problems on farms."

The SA Black Vintners Alliance (Sabva), a loose grouping of black-owned wine labels, is regularly held up by Sawit as proof of its achievements. But the alliance is on the brink of dissolving amid complaints that it gets little support from Sawit and is being asked to help front companies with no industry ties access government grants, while a white-dominated fraternity protecting its own interests continues to monopolise a small, oversupplied market with shrinking returns.

Today Sawit is pinning its hopes on a new refinancing model announced late last year.

The future

The new model will see the formation of a special purpose vehicle (SPV) to manage a fund focusing on land reform, empowerment and the social upliftment of farmworkers based on sound business principles. Half the funds will come from commercial lender Cebi Capital, the other half from Bawsi, Nafu and Sawit's loans and shares.

A due diligence, expected to be concluded in February, will value the Sawit loan book and establish Bawsi's legal and financial status. Cebi will also pay off the remaining IDC loan, estimated at R15 million, which means the SPV can use Phetogo's shares as security and receive its KWV dividends until the loan is settled.

Future plans include accessing grant funding through the presidential priority project that aims to redistribute 5 million hectares of farmland to farmworkers within three years, buying a stake in five prominent wine farms, identifying another 100 farms for empowerment partnerships or acquisition, and buying into agricultural cooperatives as a bridge to other commodities. Funding will be sourced from government departments, programmes and agencies as well as private investors on a case-by-case basis.

"There must be very clear accountability, return on investments, business plans and skills transfer, administered by a fund manager and investment committee that will screen all business proposals for loans," says a source close to the negotiations. The SPV will be expected to drive a strong transformation agenda, but in an orderly, sustainable way that doesn't alienate the influential Afrikaner establishment. "The message we want to convey is that this is orderly land reform, not land grabs, based on sound business principles," says the source. "The Afrikaners are here to stay and have an important role to play. We need their money and skills." It remains to be seen whether these plans will reach fruition, or sink in the morass of competing commercial interests and government red tape. Meanwhile, as the new elite watch their shares grow in value, social and labour tensions continue to rise among farmworkers and smallholders increasingly impatient at waiting for their ship to come in. |**fw**

Cracks in the consortium

As Sawit began running out of cash and started scrambling for new investors, tensions emerged among Phetogo shareholders and between Phetogo and Sawit.

Sawit accused KWV and Phetogo of failing to honour an agreement to implement a transformation plan, which would ensure the company subcontracted subsidiary functions to black companies. It therefore decided to withdraw as the deal's co-funder with the intention of setting up a new entity. A task team, with representatives from Sawit, Bawsi and Nafu, evaluated several offers and appointed Tri-linear Asset Management Group as the preferred bidder in late 2006.

To complicate matters Bawsi and Nafu (Zamori) offered to sell their Phetogo shares, estimated to be worth R45 million and R16 million respectively. When eTV executive Marcel Golding announced his intention to exercise his pre-emptive right to buy the shares, the move was fiercely opposed by Sawit because it would give him a controlling stake in Phetogo, thereby destroying what little broad-based empowerment credentials it had left.

Tri-linear offered to refinance Sawit's loan, buy the Bawsi and Nafu shares worth R60 million, and throw in a sweetener of two interest-free loans of R20 million and R25 million to keep Sawit afloat.

But sources close to the negotiations said the proposal came under fire for various reasons, including Tri-linear's demand for an R11 million transaction fee to be paid to a company called Reashoma. It was also feared Tri-linear intended to use Phetogo's full share value of R380 million to raise funds for a wine empowerment fund it would administer and control. Apparently R1 billion would be borrowed from the Land Bank, to be matched by a European investor.

In the end both deals fell through. Late last year another company, Cebi Capital, announced it would refinance Sawit's loan book to create a special-purpose vehicle that will focus on land reform and social upliftment projects based on sound business principles.