BIZCOMMUNITY

Mineworkers fail to gain from share plans

By Carol Paton

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Employee share ownership plans (Esops) in the mining industry - viewed five years ago as a way to spread the benefits of empowerment to workers - have all but failed, with minimal benefits flowing to lower-end employees now that the schemes have begun to vest.

Concluded in the days when mining stocks were rising and often linked to narrow black economic empowerment transactions (BEE), Esops are now firmly out of favour with workers, who have seen little or no rise in wealth in all but a few examples.

The National Union of Mineworkers now says existing schemes must be restructured and there should be a complete rethink of Esops for the future.

The failures came about for three reasons:

- Share prices did not appreciate as had been expected when the transactions were done, mostly in 2006 and 2007;
- The deals were in most cases structured with a high proportion of loan shares, which were to be paid for by dividend flows;
- The quantum of shares transferred to workers, together with the debt, made it almost impossible for substantial value to be realised.

Gavin Hartford, chief executive of The Esop Shop, which advises on these transactions, says the typical structure of a mining industry Esop included a proportion of free shares - usually equal to a quarter or a third of the tranche - together with a larger proportion of loan shares.

The debt on the loan shares would be paid from 50% of the dividends, with the remaining 50% of dividends being paid to workers. After five years, the theory was that the shares would be fully paid and when the scheme vested, employees would be free to sell all or a portion of them with a good return.

The real story is different. "Esops were mostly done parallel to narrow BEE transactions. Effectively, employees got almost nothing. Sometimes the debt wasn't retired by the time the scheme vested, so they were cancelled," says Hartford.

Source: Business Day via I-Net Bridge