



National Agricultural Marketing Council

Promoting market access for South African agriculture

Generic Transformation Guidelines July 2014

NATIONAL AGRICULTURAL MARKETING COUNCIL
Business Office

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1. INTRODUCTION

In South Africa transformation, within the agricultural sector is viewed from many different aspects. Government has been trying to address the real meaning of transformation in agriculture, through its programmes and interventions. There are numerous definitions of transformation, however, in agricultural sector transformation is approached differently. It is important that the structure of agriculture in South Africa is understood before addressing transformation.

The country has a dual agricultural economy, with both well-developed commercial farming and more subsistence-based production in the deep rural areas. The commercial farmers are characterised by their advanced farming practices, easy access to physical capital, access to financial capital, access to markets and information. The smallholder farmers are characterised by their traditional methods of farming, small portions of farming land, no access to financial capital, no easy access to markets and information. It is this gap of inequality that Government is trying to close through its interventions.

Within the agricultural sector, certain industries collect statutory levies which are approved by the Minister of Agriculture, Forestry and Fisheries. From the statutory levy income at least 20% of the collected income should be allocated for transformation activities in line with the NAMC Transformation Guidelines.

2. PROPOSED TRANSFORMATION GUIDELINES

In order to provide the industries with the opportunity to make inputs regarding the administration and utilisation of the 20% portion meant for transformation, a workshop was held between DAFF, NAMC and Agricultural Industries on the 12th of March 2014. In this workshop, two options were proposed, namely:

Option 1

Levy administrators should submit on an annual basis, three months before the start of their financial year, a business plan regarding their transformation activities envisaged for that financial year, to the NAMC for comments and inputs.

- In this Business Plan, the transformation funds (at least 20% of levy income), will be pooled and allocated to different transformation activities. For example, only salaries of persons actually involved with transformation will form part of this Business Plan for transformation.

- Within six months after a specific financial year, levy administrators should report on its actual transformation activities, by comparing their actual activities with the budget for that financial year.
- As part of their annual business plan, levy administrators should compile customised guidelines with key measurable outcomes for transformation.

Option 2

The levy administrators transfer the 20% portion of their statutory levy income, earmarked for transformation, to an independent third party.

- An “independent third party” could be a committee appointed by the NAMC and the relevant industry, assisted by an audit company, to promote transformation in the particular industry.
- This committee will be financed from administration costs (which must not be more than 10% of levy income).
- To ensure that some of the existing transformation projects could continue, levy administrators will be allowed to apply to the established independent third party for funds to pay for these activities.

From the transformation guidelines workshop, the NAMC CEO concluded by saying there is no more “black or white research”, “black or white information”, or “black or white promotion”. He also indicated that statutory funds available for transformation should not finance training of farm workers, because the relevant SETA’s are financing training.

It was agreed that the transformation guidelines that were developed require some customization per commodity or subsector. Therefore, the NAMC will initiate this process to ensure that the guidelines are customized.

From the conclusion drawn from the workshop, the NAMC guided by the seven pillars of the AgriBEE Sector Code, would like to propose a list of the activities that can be funded with the transformation fund as well as the activities that are not regarded as transformation activities. It must be noted that, due to the nature of levy funds, some of the pillars of the AgriBEE Sector Codes cannot necessarily be funded, e.g. employment equity, since their definitions are broader than the scope of the levy funds.

Activities regarded as transformation

| Pillar | Activities (examples) | Percentage |
|-------------------------------|--|--------------------------|
| 1. Enterprise development | <ul style="list-style-type: none"> • Production material/inputs • Extension services • Mentorship • Soil preparations • Accreditation (certification for accessing export markets) • Market facilitation (Assist smallholder farmers to access the markets) • Business plan development • Industries to assist black farmers to gain access to finance | More than 50% |
| 2. Skills development | <ul style="list-style-type: none"> • Bursaries • Farmers and other role players in value chain • Farm workers (if motivated properly due to AgriSETA cuts) | Approximately 20% |
| 3. Employment equity | <ul style="list-style-type: none"> • To promote equity in the workplace | Approximately 30% |
| 4. Management control | <ul style="list-style-type: none"> • Salaries for transformation managers | |
| 5. Preferential procurement | <ul style="list-style-type: none"> • Procuring from Black owned enterprises/businesses (QSE's/EME's) | |
| 6. Socio Economic Development | <ul style="list-style-type: none"> • Provision of good housing, clean water, sanitation, electricity, recreation facilities and health care programmes | |
| 7. Ownership | <ul style="list-style-type: none"> • Increase level of entitlement of Black People to participate in the Economic Interest | |

Activities not regarded as transformation:

- General research, information and promotion activities
- Scale neutral activities
- Training of workers (funded by Agri-SETA)

Agri SETA funding

During the May 2014 discussion with levy administrators, a number of them expressed their frustration due to the cut (in some cases up to 70%) in funds to be received from AgriSETA. The NAMC was informed that AgriSETA's budget from Treasury was cut because AgriSETA did not allocate a major part of its budget the previous financial year. Due to the developments at AgriSETA, a number of administrators were of the opinion that the NAMC should soften its approach regarding training to be funded by the AgriSETA. In other words, statutory funds earmarked for transformation must be available to finance these training to prevent that workers be negatively affected by the new transformation guidelines. The NAMC is therefore of the opinion that if motivated properly, levy administrators should be allowed to use statutory funds earmarked for transformation, to pay for the training of the relevant farm workers or other laborers in the value chain.

Option 2 (independent third party)

The NAMC will reconsider option 2 in specific circumstances (the transfer of the transformation funds to an independent third party). For example, to transfer all transformation funds to GAFADA to be responsible for transformation activities in the grain industries, provided that GAFADA also adhere to the NAMC's generic transformation guidelines.

3. WAY FORWARD

The proposed new generic transformation guidelines will be effective with immediate effect. Depending on the specific arrangements, levy administrators have to submit on an annual basis, three months before the start of their financial year, a business plan regarding their transformation activities envisaged for that financial year, to the NAMC for comments and inputs.

- In this Business Plan, the transformation funds (at least 20% of levy income), will be allocated to different transformation activities.
- Within six months after a specific financial year, levy administrators should report on its actual transformation activities, by comparing their actual activities with the budget for that financial year.
- As part of their annual business plan, levy administrators should compile key measurable outcomes for transformation.

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