NAMC

Promoting market access for South African agriculture

Agri-Trust digest

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In this issue we cover the following topics:

1. **Corporate governance: Why is it important in the management of the agricultural industry trusts?**
2. **Trust deeds as a tool to guide the operations of the agricultural industry trusts**
3. **Financing the sector through the trusts' funds: Are we funding the right areas?**

Visit the NAMC Agri- Trusts Portal at: http://www.namc.co.za/services/agricultural-trusts/

AGRI-TRUST DIGEST

Agri-Trust Digest is a bimonthly report that is produced by the National Agricultural Marketing Council through the Agricultural Industry Trusts Division. The publication aims to communicate developments as they happen around the different agricultural trusts. The focus of this issue is on three topics in the grain industry: (i) Corporate governance: Why is it important in the management of the agricultural industry trusts?; (ii) Trust deeds as a tool to guide the operations of the agricultural industry trusts; and (iii) Financing the sector through the trusts' funds: Are we funding the right areas? The division has three digests which cover the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN), agricultural transformation, and agricultural industry trusts. Agri-Trust Digest reports on key developments coming from the operation of the different industry trusts.

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1. CORPORATE GOVERNANCE: WHY IS IT IMPORTANT IN THE MANAGEMENT OF THE AGRICULTURAL INDUSTRY TRUSTS?

By

Matsobane (BM) Mpyana

1.1. Introduction

Corporate governance is a set of rules that define the relationship between the stakeholders, management and board of directors of a company, and which influence how that company operates. Corporate governance exists to ensure that companies operate in a fair, equitable and appropriate manner for all stakeholders. Achieving this involves the establishment of a set of internal policies, rules and procedures that cover topics from remuneration and benefits to financial reporting and everything in between. Corporate governance covers many distinct areas, including the establishment of policies and processes that protect the best interests of stakeholders, which can be internal (management, employees, board of directors and shareholders) or external (government, suppliers, communities and banks).

The key governance documents that have dominated the South African business community are the various King reports on corporate governance, starting with King I published in 1994. It is no coincidence that King I coincided with the first democratic election held for all South African citizens, meaning that all of the King reports have their foundations in ethical and effective leadership. The most recent corporate governance report for South Africa is King IV, which was published in 2016. This report considers best practice in corporate governance based on global trends and experience.

There are differences between versions as with King III and King IV, and the move from 'apply or explain' to 'apply and explain', was premised on 16 principles having universal applicability, with only the implementation being different, depending on the size and complexity of the organisation and/or institution. This allows for various stakeholders to make informed choices on whether or not their organisation is achieving the four good governance outcomes, namely: (i) Ethical culture, (ii) Good performance (iii) Effective control, and (iv) Legitimacy.

1.2. Training in corporate governance

The National Agricultural Marketing Council (NAMC), through its division responsible for the agricultural industry trusts, co-ordinates training in corporate governance for the ministerial trustees. The purpose of such training is for the ministerial trustees to familiarise themselves with the corporate governance policies, practices and principles. It can be argued that sustainability, innovation, fairness and effective leadership are the characteristics of good governance that can transform institutions such as the industry trusts. The benefits of corporate governance training are to encourage trustees to be confident, to support ethical decisions, and to encourage trustees to do a better job in transforming the respective trusts.

1.3. Why is corporate governance important in the management of the industry trusts?

With industry trusts being bodies that manage and safeguard the trusts' assets and ensure that the trusts remain evergreen, corporate governance becomes very important. The industry trusts as a collective are valued at over R2.3 billion worth of assets (monetary and fixed property), which means that corporate governance principles should always be applied to ensure that the assets are grown over time and that the trusts do not deplete the asset base.

Given the legalities embedded in the governance of trusts, corporate governance provides better access to capital and aids economic growth. For the industry trusts to be effectively and ethically governed, trusts must not only practise internal governance but also must operate in a sound institutional environment. Good corporate governance ensures that the business environment is fair and transparent and that trusts can be held accountable for their actions. On the contrary, weak corporate governance leads to waste, mismanagement and corruption. It should be noted that only good governance can deliver sustainable good performance in the management of the industry trusts.

1.4. What is needed for the industry trusts to achieve corporate governance best practices?

The following shall be put in place, but shall not be limited to, establishing and disclosing trust objectives; outlining ownership structure and shareholder rights; setting board and management structure processes; developing processes for change in control and transaction involving significant assets; addressing foreseeable risk factors; establishing regular financial audits and disclosure of audit findings; monthly financial management and accounts; stating financial transparency and disclosure; and good record-keeping systems.

1.5. What are the roles of a director or a trustee in the context of corporate governance?

In the context of this report, the director is a trustee as he/she is involved in decision making, strategic planning and the implementation of policies, as well as attending meetings, managing the money and performing other activities of a director. Therefore, the trustee is responsible for monitoring the operations or changes that can prevent the trust from moving forward and achieving its objectives. The trustee or director is responsible for promoting the development of the South African economy by encouraging high standards of corporate governance, encouraging the efficient and responsible management of the trust, and providing a predictable and effective environment for the efficient regulation of the respective trusts.

In conclusion, corporate governance is important in the execution of the work of any institution, including the trusts. It does not matter how many times corporate governance training is attended, as some of the principles are ever changing and require the trustees to re-familiarise themselves. It should be emphasised that "only good governance can deliver sustainable good performance in the management of the industry trusts."

2. TRUST DEEDS AS A TOOL TO GUIDE THE OPERATIONS OF THE AGRICULTURAL INDUSTRY TRUSTS

By

Nomantande Yeki

2.1. Understanding a trust deed

In 1996 the former control boards were abolished and all assets were transferred to the agricultural industry trusts. The agricultural industry trusts are managed by a board of trustees, which performs its duties and responsibilities under the guidance of the trust deed. A trust deed is THE most important trust document – it is what creates the trust. A trust deed is a contractual agreement that binds all parties involved and it is enforceable by law. The trust deed contains information such as:

- The official name of the trust
- The objectives of the trust
- The representation of the trustees
- Rights on trust assets
- Outline of trustees' powers and duties
- Termination and distribution of the trust

2.2. Importance of a trust deed in guiding the operations of the trust

From the very beginning, a trust deed is important as a legal document declaring what assets are contained within the trust, as well as trustee representation and an indication of the beneficiaries. A trust deed not only holds the trustees liable, but it keeps them within the trust parameters.

It is important for the board of trustees to fully understand the thought process and objectives behind the establishment of the trust they represent. The trust deed gives them greater power, which ensures that there are no bureaucratic difficulties that could potentially hinder the achievement of the objectives. In each agricultural industry trust, the board of trustees is comprised of representatives of both the industry (private sector) and the Minister of Agriculture, Land Reform and Rural Development (public sector). These representatives serve on the board to administer the trust's assets in the best interests of both the public and private sectors in line with the trust deed. All decisions and actions of the trustees must be taken with reference to the trust deed. Hence equal representation of the board of trustees is key in promoting the interests of both parties.

2.3. Conclusion

Trustees must understand the information contained in the trust deed, which is the primary responsibility of a trustee. The trust deed sets out all the guidelines of the trust and how the trust should operate. The trust deed also gives powers and discretion to the board of trustees.

3. FINANCING THE SECTOR THROUGH THE TRUSTS' FUNDS: ARE WE FUNDING THE RIGHT AREAS?

By

Elekanyani Nekhavhambe

3.1. Introduction

Currently, there are 11 agricultural industry trusts, valued at over R2.3 billion, and all are managed to protect and grow the asset base. Agricultural industry trusts are therefore the institutions that are entrusted with the safeguarding and utilising of former statutory assets from the control boards for the benefit of the industry as a whole. It is noteworthy that the industry trusts are key vehicles to drive transformation in the agricultural sector. Annually, the trusts spend over R65,7 million on transformation, which represents an increase of 7,03 % from R61,4 million in 2017/18 and which funds key activities relating to enterprise development in line with the NAMC's transformation guidelines published in 2018. However, the most important question could be: "Are we funding the right areas in the sector of agriculture?"

Against the above backdrop, this article provides some insight into the common areas that are funded by the trusts' funds.

3.2. Areas that are commonly funded by the trusts

It is important to note that existing industry trusts' support of agricultural sector transformation is visible. Most of the trusts have been able to support transformation activities relating to enterprise development, skills development and socio-economic development amongst emerging farmers. It is commendable that the trusts are doing well in transforming the sector.

However, the trusts' support of the sector is not limited to transformation support. Other areas funded through the trusts' funds include:

- Research and development;
- International relations and market access linkages for all participants; and
- Dissemination of information to industry role players.

Trusts also play a significant role in providing technical support and playing an advisory role in matters of the success of the industry.

The trusts have transformation entities that drive the inclusion of emerging farmers in the respective value chains. Notably, the Mohair Empowerment Trust funded by the Mohair Trust has made a significant contribution to developing farmers in the industry, and one commercial farmer is being established per year. This development applies to the grain trusts through the Grain Farmer Development Association (GFADA) and the Potato Industry Development Trust, which have also made a significant contribution in this regard. Good work has been done by most of the trusts in terms of funding key activities aimed at growing the sector.

3.3. Conclusion

It can be concluded that trusts are funding the right areas within the sector, considering the limited funds available. The industry trusts would be able to do more if the government were to match rand-for-rand the funding of transformation and other activities, such as research and development, to benefit the entire sector.

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