

# Broad-Based Black Economic Empowerment in Agriculture

## AgriBEE Reference Document<sup>1</sup>

July 2004

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• <sup>1</sup> Developed by the AgriBEE Reference Group and referred to at the launch of the AgriBEE Framework on 26 July 2004.

## 1. DEFINITIONS

For the purposes of AgriBEE, the following terms apply:

**AgriBEE** is a sectoral transformation charter in terms section 12 of the Act and a plan of deliberate and systematic support of black South Africans who were systematically excluded in the past from actively participating fully in the agricultural sector as owners, managers, professionals, skilled employees and consumers.

**The Act** is the Broad-Based Black Economic Empowerment Act, 2004.

**Black people** is a generic term which means Africans, Coloureds and Indians.

**Broad-based black economic empowerment (equitable access and participation)** in agriculture means economic empowerment of all black people including women, workers, youth, people with disabilities and people living in rural areas through diverse but integrated social or economic strategies, plans, principles, approaches or acts,

that include, but are not limited to:

- increasing the number of black people that manage, own and control enterprises and productive assets;
- facilitating ownership and management of enterprises and productive assets by communities, workers, cooperatives and other collective enterprises;
- human resource and skills development;
- achieving equitable representation in all occupational categories and levels in the workforce;
- preferential procurement; and
- investment in enterprises that are owned or managed by black people.

**BEE enterprises** are categories of enterprises with representative levels of participation, ownership, management or control by black South Africans, described in the Act.

- A "black enterprise" is one that is 50,1% owned by black persons and where there is substantial management control. Ownership refers to economic interest while management refers to the membership of any board or similar governing body of the enterprise.
- A "black empowered enterprise" is one that is at least 25,1% owned by black persons and where there is substantial management control. Ownership refers to economic interests. Management refers to executive directors. This is whether the black enterprise has control or not.

- A "black woman-owned enterprise" is one with at least 25,1% representation of black women within the black equity and management portion.
- A "community or broad-based enterprise" has an empowerment shareholder who represents a broad base of members such as a local community or where the benefits support a target group, for example black women, people living with disabilities, the youth and workers. Shares are held *via* direct equity, non-profit organisations and trusts.
- A "cooperative or collective enterprise" is an autonomous association of persons who voluntarily join together to meet their economic, social and cultural needs and aspirations through the formation of a jointly owned and democratically controlled enterprise.

**CASP:** Comprehensive Agriculture Support Programme.

**HDI:** Historically disadvantaged individuals.

**Mainstreaming** means a process of graduating operators from lower levels of economic activity in agriculture into sustainable economic viability and integrating and recognising these operators in the main body of the economy.

**Sector:** The farming community and the up and downstream value chain businesses serving or dependant upon that community.

**Sector Plan:** Strategic Plan for South African Agriculture, Department of Agriculture (DoA), developed jointly between Government, Agri SA (including Agribusiness Chamber) and NAFU, 27 November 2001.

**SOE:** State-owned enterprise.

**Stakeholders:** Current and potential beneficiaries of AgriBEE and participants in the agricultural value chain.

## 2. INTRODUCTION

- 2.1. Farming, with related downstream industries and agribusiness sector, feeds and clothes the nation, is the custodian of natural resources and fulfils a particularly crucial role in society that must be nurtured.
- 2.2. During the March 2001 meeting of the Presidential Commercial Agriculture Working Group President Mbeki challenged agricultural stakeholders to identify a common strategy that would focus on the sector's unification and growth. The Strategic Plan for South African Agriculture (Sector Plan) was subsequently developed by the Department of Agriculture, Agri SA

(including the Agribusiness Chamber) and NAFU in consultation with various strategic partners and presented to the President on 27 November 2001.

- 2.3. The Sector Plan determined priority deliverables and permanent joint committees of national and provincial Government and the partners have been set up at the technical and political level to deal with its implementation. A commodity/industry/enterprise-based implementation approach has been decided and multi-stakeholder task teams are responsible for developing such industry - and issue-based action plans and for driving implementation.
- 2.4. The Sector Plan has a common vision of a united and prosperous agricultural sector with the strategic goal of generating equitable access and participation in a globally competitive, profitable and sustainable agricultural sector contributing to a better life for all.
- 2.5. This will be achieved through three inextricably linked Sector Plan core strategies that aim to:
  - Enhance equitable access and participation;
  - Improve global competitiveness and profitability; and
  - Ensure sustainable resource management in the sector
- 2.6. Five complementary or enabling strategies support the core strategies. These are good governance, integrated and sustainable rural development, knowledge and innovation, international cooperation and safety and security.
- 2.7. AgriBEE has been developed to guide black economic empowerment within the sector as a key component of implementing equitable access and participation in accordance with the Sector Plan. It provides precision to commitments and responsibilities for greater participation and equitable access in the sector, while promoting the goals encompassed in the Government's Broad-based Black Economic Empowerment policies and legislation.
- 2.8. Government has developed a strategy document with scorecard guideline in terms of the Broad-based Black Economic Empowerment Act, 2004. Different sectors are encouraged to develop their own strategies in terms of the Act and strategy. AgriBEE responds to this injunction in the context of the Sector Plan.
- 2.9. AgriBEE represents the range of commitments agreed to by the partners to ensure that the Sector Plan objective of equitable access and participation in the sector and the Government's BEE strategy are achieved.

- 2.10. Broad-based black economic empowerment and a representative, united and prosperous agricultural sector are the underlying outcomes intended for AgriBEE.

### 3. PROBLEM STATEMENT

- 3.1. The natural agricultural endowment in South Africa is varied and limited. Unused land of good potential is not abundant and water is scarce and costly, limiting horizontal expansion of agricultural production<sup>2</sup>.
- 3.2. Economic factors and current technology place a limit of on the number of viable commercial farms in South Africa;
- 3.3. Minimum economically viable farm sizes and production patterns in the different ecological regions of South Africa are dictated by economic and local environmental production limits per hectare.
- 3.4. Societal needs for non-agricultural land use purposes, e.g. residential, could negatively impact on the role of agriculture and the supply of food and fibre. Given the limits to the natural endowment, land of high agricultural potential should be protected.
- 3.5. Factors such as the lack of access to land, water, markets, finance, communications infrastructure, education, skills development facilities and flows of information and opportunities prevented black South Africans from making substantive progress in farming in the past. Furthermore, these factors and previous policies and power relationships left black participants sorely underrepresented in agribusinesses in the entire value chain.
- 3.6. These are some of the factors that gave way to a vicious cycle of skills deficit, crushing poverty, underdeveloped markets, low rates of public and private sector investment and a lack of infrastructure that reinforces the cycle by impacting on the ability of black communities to engage in meaningful rural based economic activities. In addition, the natural resources base is eroded and under-utilised in some areas.
- 3.7. The local and international markets place different demands on supply and quality chain management and inappropriate strategies or execution in

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• <sup>2</sup> Approximately 50 000 medium to large commercial farmers manage 61 000 commercial farms on 82 mil ha in South Africa. Furthermore 240 000 small-small commercial farmers provide local and regional markets, principally to informal traders, and an estimated 1 - 3 million rural householders produce food primarily to meet their family's needs. 14,5 mil ha farmland were available in the former homeland areas.

marketing, in particularly the international market, can have drastic long-term consequences.

- 3.8. Previous policies led to a degree of concentration in the sector that has, albeit improved, not been completely eliminated by deregulation and market liberalisation. While many more individual operators are now in agribusiness, they are not protected and supported to the same degree as in the past.
- 3.9. Networks and opportunities for small and medium-sized businesses in the supply chain are sub-optimal or non-existent.
- 3.10. Reduced protection of and support to agriculture has resulted in increased exposure and vulnerability to demand and factor conditions, increasing the cost of entry and the risk profile for new entrants.
- 3.11. Service providers, infrastructure, market linkages, transport and operators, including the informal sector, are lacking or sub-optimal in the food value chain in rural and township areas.
- 3.12. While deregulation of the marketing system, reduced support and protection in the South African agricultural sector over the last decade have led to greater productivity and competitiveness the inequality gap within the sector has widened and small and marginalized businesses have not reaped these benefits.
- 3.13. Agribusinesses, large and small, have not fully and innovatively exploited all opportunities for the expansion of domestic and international markets.
- 3.14. Policymaking and service delivery in the past focused on two agricultures, one for the commercial agricultural value chain and one for the previously disadvantaged, as opposed to a single unified sector. The dualism that was created and the polarisation of "us" and "them" among agribusiness participants still exists to a large extent. The challenge is to find workable solutions that truly empower and mainstream black South Africans in real business opportunities in a mutually reinforcing manner between existing and new participants.
- 3.15. Agriculture has a low absorption rate for skilled and trained manpower that is inconsistent with its needs. An example of particular concern is the case of agricultural graduates not being able to find employment.
- 3.16. The Sector Plan states: "Given the legacy of exclusion and discrimination, the challenge is now to unlock the talents and creative energy of people and improve their participation in all aspects of the sector and rid it once and for all of the many entry barriers rooted in its historical dualism. The challenge is to identify programmes to encourage new entrants: black and

white; young and old; men and women; small and medium-scale enterprises, to enter the sector. Finally, it is important to find ways to ensure that all these different constituents of the sector genuinely feel and see themselves as belonging to a single entity".

- 3.17. In the case of displacement of existing skills as a result of AgriBEE processes, creative strategies should be implemented for the redeployment of such skills with the aim of ensuring that productivity is maintained.

#### **4. NATIONAL CONTEXT**

- 4.1 Commercial viability in farming demands sustained productivity and high levels of entrepreneurship, long-term commitment, resources and skills.
- 4.2 It is recognised that not all black South Africans who desire land, wish to farm.
- 4.3 While asset ownership is a key to empowerment, black South Africans often do not have the capacity to accumulate such mainstream assets on their own. Government, The Land and Agricultural Bank, the banking community and the private sector have important contributions to make in this regard.
- 4.4 Partnerships between Government, SOEs and statutory agencies and the private sector and civil society will be the key mechanism in the design, formulation and implementation of empowerment strategies and programmes at all levels.
- 4.5 Various current policies and legislation<sup>3</sup> at present assist socio-economic empowerment in the sector and could be added to or amended should this be required.
- 4.6 The Financial Charter provides opportunities and a focus on the agricultural sector that will be drawn upon.
- 4.7 Information regarding participation in the different industries should be leveraged through levies.
- 4.8 In working towards the 2014 goal of 35% effective participation of black South Africans in the economy as a whole the Government strives towards 35% and 45% at primary and secondary levels respectively.
- 4.9 Initiatives in terms of AgriBEE are aimed at true empowerment, avoiding window-dressing.

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• <sup>3</sup> See Annexure A

## 5. SCOPE OF APPLICATION

AgriBEE applies to the entire value chain in the South African agricultural sector (from farm to consumer plate), which includes all economic activities relating to provision of agricultural inputs, farming, processing, distribution, logistic and allied activities that add value to farm products.

## 6. APPROACH

- 6.1 The approach followed in the Sector Plan, seeks to end the divisive and harmful historic dualism in agricultural policy and service delivery. It rests on the three interlinked core strategies of equitable access and participation, global competitiveness and profitability and sustainable resource management. AgriBEE follows the same approach.
- 6.2 AgriBEE is only possible if it is internalised as a core objective by all stakeholders at all levels, national, provincial and local, in Government and industry and dealt with in the context of the other two core strategies of the Sector Plan, namely global competitiveness and profitability and sustainable resource management. It will be most efficiently pursued and implemented through partnerships between Government and the private sector.
- 6.3 Given the historical and cultural background and practices, innovative business models for ownership of agricultural resources and unique appropriate financing solutions, e.g. stokvels and cooperatives, should be recognised and integrated into the overall agricultural support system.
- 6.4 The approach is to promote mainstreaming of black South Africans in all levels of agricultural activity and sizes of enterprise in the entire agricultural value chain.
- 6.5 In the Government's facilitation of the transformation of the ownership profile in the sector it will rely on the market to play a key role. The transfer of ownership should take place in a transparent manner and at fair market value.
- 6.6 Redressing historical and social inequalities will be approached in a manner that does not negatively impact on successful existing enterprises. This will be done by actively and urgently committing resources and efforts toward lowering entry barriers to the sector, transforming existing agribusinesses, creating opportunities and support systems focused on new commercially viable entrants.

- 6.7 In so far as minimising likely negative impact of AgriBEE on established farming enterprises and related businesses Government, together with key stakeholders, will aspire to find alternative opportunities based on lessons from around the world. Opportunities such creating an association of retirees and other experienced people, providing expert advice internally and externally and mentoring services are some of the programmes, which can be jointly funded with international organisations like the FAO/IFAD etc.
- 6.8 Government will provide guidelines, norms, and incentives, in favour of black economic empowerment.
- 6.9 Government needs to interact with farmers and agribusinesses and prefers to do so through broadly representative and efficient structures, including unified commodity groups.
- 6.10 Government will favour support for innovative small and medium-sized agricultural enterprises, cooperatives and viable family farms as the preferred business models in the farming sector.
- 6.11 Incentives and assistance under AgriBEE will only be provided for projects for which the economic feasibility has been assessed as sustainably viable.
- 6.12 Wherever possible, delivery on non-public AgriBEE requirements will be provided by the private sector with Government creating the enabling environment.
- 6.13 Given that skills development, training and intellectual empowerment are the core of long-term sustainability, these outcomes will form a centrepiece of funding decisions by Government.

### **Role of Partnerships**

- 6.14 AgriBEE is based on three core sets of interventions. The first related to the use of various Government instruments to promote empowerment. The second is the establishment of partnerships with the private sector. AgriBEE is neither possible, nor sustainable without effective partnerships. These partnerships will also play a critical role in the development of workable empowerment financing mechanisms and institutional arrangements. Third is the implementation of autonomous private sector initiatives that promote AgriBEE.
- 6.15 The private sector and Government, in partnership with other stakeholders, will be the key agent in designing commodity, industry or enterprise specific empowerment programmes. To be recognised by and benefit from AgriBEE incentives these sub-sector and enterprise-based accords should

substantially align with the principles and objectives of the Sector Plan; contain mechanisms to assist in achieving AgriBEE objectives; and link to and comply with the AgriBEE monitoring and evaluation processes.

- 6.16 Commodity groupings and industries will develop specific targets, Codes of Good Practice and programmes/charters, drawing upon AgriBEE and Government guidelines and codes of good practice.
- 6.17 AgriBEE strategies by agricultural commodity groupings should cover a firm framework of objectives, resource allocation and appropriate institutional arrangements to implement empowerment.
- 6.18 Intergovernmental linkages will be established by the DoA in 2004 with relevant departments with regard to AgriBEE, notably the dti, Department of Water Affairs (DWAF), Department of Land Affairs (DLA), Tourism, Provincial and Local Government, Health and Welfare, Provincial Departments of Agriculture, Municipalities and traditional leaders to ensure a consistent integrated Government approach to AgriBEE.

## **7. AGRIBEE VISION**

*Empowerment through growth in the agri-food and fibre value chain for a representative, united and prosperous agricultural sector.*

## **8. OBJECTIVES**

The objectives of AgriBEE are to:

- 8.1 Enhance equitable access to and participation in the entire agriculture value chain;
- 8.2 Deracialise land and enterprise ownership, control and management;
- 8.3 Unlock the full entrepreneurial skills and potential in the sector for a vibrant agriculture;
- 8.4 Facilitate structural change in the agricultural support system and development initiatives to assist black South Africans in owning, establishing, participating in and running agricultural enterprises, while as far as possible, avoiding negative impact on existing business and the agricultural resource base:
- 8.5 Social upliftment and restoration of dignity
- 8.6 Provide benchmarks as indicated in Section 9 for:

- Lowering access barriers to resources and support services in favour of new entrants; and
- Incentives for effective partnerships, mentorship and equitable power sharing between existing operators, including black role models, and new entrants.

## **9. LEVERAGE POINTS AND COMMITMENTS**

- 9.1 The stakeholders agree that all commodity/industry or enterprise groupings will commit to developing sub-sector strategies with implementation action plans that comply with AgriBEE framework by the end of 2004.
- 9.2 Government, jointly with other stakeholders, including labour, in the private sector, undertake through the use of their various instruments and organs, to create an enabling environment for the empowerment of black South Africans by the following commitments.

### **9.3 Land**

LRAD is the key delivery programme regarding land redistribution.

Government aims to:

- 9.3.1 Settle 95% of land restitution claims by end of 2004/05;
- 9.3.2 Make available and transfer to black South African beneficiaries all State agricultural land by the end of 2005/6, or any other agricultural land becoming State property not required for public purposes (e.g. research and training);
- 9.3.3 Consider, when transferring State land, substantial discounts, innovative vendor financing schemes (such as deferred payment and options), joint equity schemes, provisional rental and leasing and other mechanisms that ensure majority worker and community ownership. This must be combined with a strong non-financial support system.
- 9.3.4 Operate on a basis that will not negatively impact on land values.
- 9.3.5 Contribute financially to the private acquisition of agricultural land by black South Africans.
- 9.3.6 Consider proactively acquiring suitable agricultural land that comes on the open market for land redistribution.

- 9.3.7 Consider, in consultation with other creditors, foreclosing on the land of farmers who have accumulated unsustainable levels of debt to the State and use this land for redistribution.
- 9.3.8 Provide a legislative framework for secure tenure rights to agricultural land in all areas.
- 9.3.9 Institute organisational structures and institutional arrangements with strong client-based management involvement supported by Government to manage these undertakings.
- 9.3.10 Promote a land rights trading market aimed at optimising land use and tenure reform.
- 9.3.11 Promote the development of a thriving, viable land rental/lease system where resources are insufficient.

#### **9.4 Access to markets**

- 9.4.1 Government will undertake an inventory and assessment of marketing infrastructure in order to propose guidelines for public and private sector investment in 2004. The collating of information from relevant institutions e.g. DBSA, Land Bank etc. will follow.
- 9.4.2 The National Agricultural Marketing Council will promote the objectives of increasing market access for all market participants, efficiency of the marketing of agricultural products, optimisation of export earnings from agricultural products, and the enhancement of the viability of the agricultural sector, taking into account AgriBEE sub-sector requirements.
- 9.4.3 The Agricultural Research Council will focus on new opportunities for AgriBEE beneficiaries, and in particular highly marketable products including new niche products and value added technologies for new entrants and agricultural SMEs.
- 9.4.4 The current 20% of preferential agricultural import/export licences in terms of trade agreements made available to new importers and SMEs will be increased over five years, where appropriate, and without impeding utilisation, to 40%, focusing on black companies and SMEs. These companies will be encouraged to utilise such opportunities.
- 9.4.5 Proudly South African accreditation norms will be developed for empowerment initiatives in AgriBEE

- 9.4.6 Government will, in collaboration with the private sector, develop an agricultural market information system and statistics accessible to AgriBEE beneficiaries.
- 9.4.7 A comprehensive agricultural trade strategy will advocate for the continuation of a free market economy, but with tariff protection and trade diplomacy advocating against distorting subsidies and unfair practices by others taking AgriBEE specifically into account. A comprehensive rules based agricultural trade system with equitable rules must allow for increased participants while advocating for the continuation of an accommodating free market economy which incorporates empowerment concerns and the levelling of playing fields. Such a system should enhance access to domestic and international markets. DoA will collaborate with the dti and related institutions on export promotion. Differential measures to incorporate blacks in opportunity seeking and exposure expeditions and the development of niche enterprises will be integral parts of the said system.
- 9.4.8 The stakeholder will promote links between farmers, businesses and traders at local level and through the value chain.

## **9.5 Trade and Tariff policy**

- 9.5.1 Government will seek better international market access and recognition for products produced by black South Africans in accordance with AgriBEE.
- 9.5.2 In determining appropriate interventions, differential measures will seek to distinguish the extent, type of problems and challenges faced at different levels of value chains by different groups to be able to effectively address and match differing and sometimes conflicting objectives for win-win solutions.
- 9.5.3 Government will follow a trade and tariff policy for agricultural products that does not expose South Africans to distorting subsidies and unfair trade practices by others. This is particularly important to emerging producers.
- 9.5.4 Government will use its trade and tariff instruments to attain AgriBEE objectives in the value chain.
- 9.5.5 Compliance to fair trade and ethical trade practices and codes will be recognised.

## **9.6 Human resource development and skills transfer**

- 9.6.1 The DoA will promote agriculture as a career and will in 2004/05 undertake an assessment of the effective demand for farming as a career amongst black South Africans.
- 9.6.2 The DoA and its partners in AgriSA, NAFU, Agribusiness Chamber and Organised Labour, will undertake special recruitment of the youth for agriculture and agribusiness. To this end 25% of the funds from the Umsobomvu Youth Development Fund will be targeted for agriculture.
- 9.6.3 A young professionals employment and mentoring programme in the agricultural sector will be instituted in collaboration with the private sector, and will target 1 500 black unemployed graduates per annum for the next 5 years in all disciplines. Researchers in agriculture are a particular concern to be noted.
- 9.6.4 Key requirements for success in agriculture are the promotion of agriculture as a business opportunity to emerging groups the identification and fast tracking of entrepreneurship and development of technical and management skills and support systems at the farm enterprise and agribusiness level. The DoA will lead and coordinate a targeted programme with education authorities, farmers' organisations and the private sector to identify entrepreneurial ability, and to enhance the above skills for new entrants into the sector.
- 9.6.5 The partners will collaborate in the establishment of appropriate skills and technical training programmes for farm workers, management and institutional development.
- 9.6.6 Special attention will be given to literacy on farms through ABET and other programmes, thus recognising the need for prior learning. Partnership with SETASA, PAETA and the Food and Beverage SETA is a prerequisite.
- 9.6.7 Experienced farm workers, women, the disabled and youth, and in particular those from black communities will be afforded preferential access to the fast tracking programmes mentioned above.
- 9.6.8 Mentorship by existing and retired knowledgeable entrepreneurs is considered to be one of the most important resources available for transferring skills and the partners will institute a programme for mentoring and fund on a 50:50 cost recovery basis on the expenses incurred by mentors in favour of new entrants. In following mentorship programmes, only knowledgeable and capable mentors will be engaged. Clear guidelines for training and an effective monitoring system will be put in place.

9.6.9 Government will include black South Africans as strategic partners in overseas trade missions, study visits and training opportunities..

9.6.10 New entrants will be required to successfully undergo approved core skills development training to qualify for any of the Government's participation and equity schemes.

## **9.7 Water**

9.7.1 In order to ensure the availability and allocation of sustainable water supplies for agricultural development, the DWAF will be consulted in the planning process of settling new farmers<sup>4</sup>.

9.7.2 Consideration will be given to the promotion of the tradability of water rights. The National Water Act of 1998 makes provision for the transfer of water allocations through trading. Consideration will be given by Government to financial support for such transactions in respect of AgriBEE beneficiaries.

9.7.3 New agricultural water rights will be targeted to AgriBEE beneficiaries, or those demonstrating a good empowerment track record. It is DWAF's policy to redress imbalances in water allocations and to specifically target HDI emerging farmers. The mechanisms for this are enshrined in the National Water Act.

9.7.4 A discount on water rates for empowerment purposes will be considered. DWAF's pricing strategy and financial support policies are directed towards HDI beneficiation.

## **9.8 Incentives and Disincentives**

Tax incentives might be considered for companies, individuals and institutions in the private sector that observe AgriBEE. *(Further consultation required with National Treasury)*

## **9.9 Support Services**

9.9.1 Support systems will be supplemented by development finance as envisaged in the Agricultural Development Finance Bill.

9.9.2 Government will develop procurement support programmes to enable black farmers and companies to secure medium to long-term market contracts.

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• <sup>4</sup> Refer to "National Guidelines for Integrated Management of Agricultural Water Use"

- 9.9.3 The ARC and other research institutions will develop appropriate technology and processes to enable black farmers and enterprises to profitably participate in the agricultural value chain.
- 9.9.4 National and provincial Departments of Agriculture and SOEs will collaborate to ensure alignment of a land reform support programme that includes planning, training, production, value adding and marketing in accordance with the CASP.
- 9.9.5 Government will develop programmes to support the development of cooperatives and farmer networks to enable black farmers to improve access to inputs, extension, finance and market.
- 9.9.6 Provincial departments of agriculture will collaborate with the ARC, private sector, NGOs and other service providers to improve the delivery of extension.
- 9.9.7 Government will develop an AgriBEE monitoring and evaluation system to measure the impact of Provincial programmes on farmer development, sustained viability and local economic development.
- 9.9.8 Under-utilised assets of public entities will be used as incubator facilities to train black entrepreneurs in specialised skills required for effective participation in the agricultural value chain.

#### **9.10 Risk Management Systems**

- 9.10.1 Agricultural development finance and risk management legislation and strategies with appropriate schemes will be introduced in 2004/05.
- 9.10.2 Disaster and risk management strategies and operations will be revitalised with clear distinctions between natural hazards and those induced by humans to deal with contingencies in relation to the Disaster Management Act of 2002.
- 9.10.3 Training programmes will include risk management.
- 9.10.4 The necessary backward and forward linkages between support, finance and risk management programmes will be established.
- 9.10.5 Government and financial institutions will create supporting infrastructure, institutional capacity and programmes to provide incentives for risk mitigating strategies.

#### **9.11 Access to finance**

- 9.11.1 A rural finance system will be implemented in accordance with the recommendations of the Strauss Commission that integrates all wholesale and retail financial intermediaries by 2004/05. (Introduce the concept of matching the asset to the loan, short term to medium term and not land).
- 9.11.2 The Land Bank will provide, as the Government's main vehicle for financing to farmers, tailor made financial packages and guarantees for new farmers which includes capital requirement for start up working capital, expansion and risk management.
- 9.11.3 Enhanced training in financial management, appropriate loan criteria and the establishment of credit records will be a prerequisite to accessing financial services under AgriBEE.
- 9.11.4 The objectives of the envisaged Agricultural Development Finance Bill will adhere to the specific recommendations of the Strauss Commission in relation to economic development by the DoA, aimed at the lower end of the financial market.
- 9.11.5 The Government will work together with stakeholders, and will encourage the efficacy of innovative, indigenous cooperative financing and saving schemes for mobilising finances for rural operators. The guidance provided by the DoA to financial cooperatives will be augmented and upgraded in 2004/05.
- 9.11.6 Mobilisation of savings at local level will be encouraged with the objective of leveraging and integrating access to higher levels of financial services.
- 9.11.7 Government will leverage relevant donor funding for AgriBEE.

## **9.12 Institutional development and stakeholder representation**

- 9.12.1 Integrated commodity groups will be assisted to mobilise black farmers around their interests and to increase their bargaining power.
- 9.12.2 Stakeholder groups, agribusinesses and cooperative development will be promoted.
- 9.12.3 Only recognised representative structures with an audited database of members that provides information to the department's farmer register will qualify for incentive benefits under AgriBEE.
- 9.12.4 Government will assist and support the development of effective representational institutions for new entrants to farming at local, provincial

and national level by leveraging financing for and promoting efficiency in such organisations.

9.12.5 DoA will collaborate in developing with NGOs/CBOs and Department of Labour to finance training courses for organisational and management skills at different levels of farmer organisation.

9.12.6 Commodity levies could also be investigated, as a mechanism to fund the administration, capacity building and the auditing of representative farmer structures, should there be general support for such mechanisms in terms of the Marketing of Agricultural Products Act.

9.12.7 Partnerships between existing representative organisations and new representative institutions will be encouraged and supported by the stakeholders.

9.12.8 The DoA wishes to be represented at the established BEE Advisory Council to provide advice and support Government in the implementation of the BEE Strategy.

9.12.9 The DoA will continue to collaborate with recognised agricultural industry/commodity groups to develop unified business plans in order to implement the three core and five complementary strategies at industry level. Three such sub-sector industry development strategies will be completed per annum over the next three years. AgriBEE will be incorporated in such plans.

9.12.10 Options for private sector-Government staff secondments to facilitate skills transfer and expert capacity building will be investigated.

### **9.13 Infrastructure related to agricultural development in all rural areas**

9.13.1 Provincial and local Governments with development stakeholders will identify needs and direct resources towards the provision and maintenance of suitable infrastructure, particularly in the identified rural nodes, e.g. roads, transport and market facilities.

9.13.2 National Government will interact with local Government and the Department of Transport to ensure the necessary focusing on the upgrading of local roads and access roads.

9.13.3 On-farm infrastructure, e.g. fences, dipping troughs, water reticulation, storage and operational shelter will be supported as part of start up packages for land reform beneficiaries.

- 9.13.4 A comprehensive on and off farm infrastructure financial support package will be provided for in terms of the CASP.
- 9.13.5 Government will promote investment by private companies and agricultural cooperatives in processing plants and such infrastructure for farm produce value adding.
- 9.13.6 The Development Bank of South Africa will consider issuing a rural development bond for agricultural infrastructure. *(To be further explored with DBSA)*
- 9.13.7 A dedicated agency will be created in the DoA to ensure coordination and focus on rural development, and promote infrastructure projects in rural areas. It will also mobilise funding and other support from the private sector and the donor community. The implementation of projects could be done with joint public/private sector participation within the IDPs.
- 9.13.8 Linkages will be explored with Eskom, as one of organisations responsible for infrastructure development in underdeveloped areas, with regard to development of agricultural enterprises and related rural industries

#### **9.14 Information support including the enhancing of knowledge systems**

- 9.14.1 Government will annually increase budgetary allocations for research and technology development in order to achieve a level of 3% of agriculture's contribution to the Gross National Product in the next decade.
- 9.14.2 Government will provide one-stop agricultural information centres, utilising information and communication technology to the optimum, in all identified rural development nodes in the next three years. These will be accessible to stakeholders as a medium for providing information and services.
- 9.14.3 Government will establish a market research and profitability information system to which the private sector will have access and may also provide services, to improve competitive intelligence among black farmers.
- 9.14.4 The ARC and other research institutions will develop prototype equipment and alternative processing techniques to facilitate the processing and packaging of agricultural products under small -scale conditions.
- 9.14.5 Government will develop a database of indigenous knowledge for agricultural production and processing during 2004/05 in order to develop an mechanisms for managing intellectual property rights.

9.14.6 Provincial departments of Agriculture will collaborate with the ARC, private sector, NGOs and other service providers to develop mechanisms to sustain the participation of black farmers in niche markets.

### **9.15 Procurement and contracts**

9.15.1 Stakeholders commit themselves to help develop AgriBEE procurement capacity and access to Government assistance programmes to achieve this. To this end:

9.15.2 Stakeholders undertake to provide, where possible, black South Africans and local SMEs a preferred supplier status in all external transactions including the supply of services and goods, thus committing to a progression of procurement from such companies over a five-year period within set standards.

9.15.3 Existing suppliers should form partnerships and market linkages with black companies, where there are no black company tenders to supply goods or services; and

9.15.4 Contractual agreements will be based on immediate (monthly) payments for work rendered by black companies to allow the smooth running of operations and maintenance of quality results.

### **9.16 Empowerment Showcase**

The showcasing of empowerment successes is crucial to leveraging investment and confidence. Stakeholders will work with the various development institutions towards developing an annual event to visibly recognise such successes. Agriculture will be promoted as a business opportunity.

### **9.17 Monitoring and evaluation**

9.17.1 The Sector Plan Implementation Committee will oversee the implementation of AgriBEE, and report to the Minister and the BEE Council annually on progress made. A stakeholder task team of the Government and commodity-based forums will play a key role in monitoring and evaluation and will report to the Implementation Committee. Different departments e.g. DoA, the dti, Dept of Land Affairs, etc. The Sector Plan Implementation Committee will promote the AgriBEE mandate.

9.17.2 To ensure transparency, the stakeholders support full disclosure and reporting on AgriBEE. This will improve the availability of data for effective intervention and diverse intervention strategies.

9.17.3 Stakeholders undertake to report, on an annual basis, their progress towards achieving commitments. A score-card approach will be followed for this purpose, with different scorecards, audited by accredited rating agencies for farming, non farming and integrated enterprises as indicated in Annexure B.

#### **9.18 Implementation and Buy-in**

9.18.1 The DoA will undertake an inventory of empowerment initiatives in agriculture, thus providing guidance to encourage and support new initiatives.

9.18.2 The DoA will seek the full commitment of the respective organs of state, including other national departments and parastatals, relevant provincial departments and local Government and other segments of society e.g. labour to AgriBEE.

9.18.3 The stakeholders are committed to collaborate to the fullest in order to achieve the vision and objectives of AgriBEE.

9.18.4 The stakeholders will collaborate in 2004/05 to develop a Code of Good Practice, targets and a private sector declaration of intent to achieve AgriBEE within the national Broad-Based Black Economic Empowerment strategy framework.

Pretoria

## LEGISLATION AND POLICIES ASSISTING IN SOCIO ECONOMIC EMPOWERMENT IN AGRICULTURE

- Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)
- Preferential Procurement Policy Framework Act (No. 5 of 2000)
- Employment Equity Act (No 55 of 1998)
- Competition Act (No. 89 of 1998, as amended by No. 35 of 1999)
- Skills Development Act (No. 97 of 1998)
- Marketing of Agricultural Products Act (No. 47 of 1996)
- Restitution of Land Rights Act (No 22 of 1994)
- Land Reform (Labour Tenants) Act (No 3 of 1996)
- Extension of Security of Tenure Act, (No 62 of 1997)
- Provision of Land and Assistance Act, (No 126 of 1993)
- Communal Land Rights Bill
- Land and Agricultural Development Bank Act (No 15 of 2002)
- Agricultural Debt Management Act (No 45 of 2001)
- Food Security Bill
- Agricultural Risk Insurance Bill
- Cooperatives Bill
- The Strategic Plan for South African Agriculture, 2001
- LRAD programme.
- Financial Sector Charter
- Broad-Based Black Economic Empowerment Act, 2004
- A Strategy on Black Economic Empowerment, Government 2003
- Guidelines to inform BEE Codes of Practice
- Broad-based Socio-Economic Empowerment Charter for the South African Mining Industry, Dept of Minerals & Energy

AGRIBEE SECTOR SCORECARD							
Core component	Indicators	Conversion Factor	Raw Score	WEIGHTING			Total Score
				FE	NFE	IA	
<b>Direct empowerment score</b>							
Equity ownership	% share of economic benefits			5%	15%		
Management/ Control	% black persons in executive management and/or executive board & committees			10%	10%		
<b>Human resource development</b>							
Employment equity	Weighted employment equity analysis			5%	10%		
Skills development	Skills development proportion of total payroll			30%	15%		
<b>Indirect empowerment score</b>							
Access to markets, finance, resources & opportunities	Indicators for mainstreaming PDI to be determined by industry			-	25%		
Support, facilitation & BEE enterprise development	Investment in BEE enterprises <sup>5</sup> as a proportion of total assets/ time			30%	15%		
Preferential procurement	Procurement from BEE enterprises as a proportion of total procurement			5%	5%		
<b>Residual</b>							
Corporate social investment <sup>6</sup>	Indicators to be determined by industry			15%	5%		
<b>Total Score out of 100%</b>				100%	100%		

<sup>5</sup> See Definitions

<sup>6</sup> Contributions towards HIV/AIDS care; ethical trade, local community development and participation; housing; and other benefits i.e. food, healthcare etc.

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Extract from:  
**South Africa's Economic Transformation:  
A Strategy for Broad-Based Black Economic Empowerment.**  
(dti, p21, Appendix A)

BEGIN Quote

## **A balanced scorecard for Broad-Based Black Economic Empowerment**

### **Introduction**

To achieve our BEE objectives we need to have a consistency of approach, appropriate flexibility to respond to different economic and enterprise conditions and the ability to measure our progress. The negotiations around the Mining Charter provided a useful and pragmatic approach to these needs that will now be applied more generally.

Government will use a 'balanced scorecard ' to measure progress made in achieving BEE by enterprises -and where sector-specific charters are developed, the terms set out in those charters will apply. The use of a common scorecard by different stakeholders provides a basic framework against which to benchmark the BEE process in different enterprises and sectors. The scorecard also allows Government departments, state-owned enterprises, and other public agencies to align their own procurement practices and individual BEE strategies. It further facilitates the process of setting measurable targets for BEE, for BEE ratings and other measurement purpose.

Furthermore, it allows for a measure of flexibility so that it can be adapted to the particular circumstances of specific sectors or enterprises, while at the same time bringing a measure of standardisation to the definition and measurement of BEE.

### **Core components of BEE**

The scorecard will measure three core elements of BEE:

- Direct empowerment through ownership and control of enterprises and assets
- Human resource development and employment equity
- Indirect empowerment through preferential procurement and enterprise development

### **Direct empowerment**

The process of BEE must result in an increase in the ownership and control of the economy by black people. This means that a significant proportion of black people ' ownership of assets and enterprises must be a controlling interest, reflecting genuine participation in decision-making at board, executive management and operations levels, and the assumption of real risk.

In the scorecard, direct empowerment focuses on ownership of enterprises and assets through shares and other instruments that provide the holder thereof with voting rights and economic benefits, such as dividends or interest payments.

Control means:

- The right or the ability to direct or otherwise control the majority of the votes attaching to the shareholder's issued shares
- The right or ability to appoint or remove directors holding a majority of voting rights at meetings of the board of directors of that shareholder
- The right to control the management of that shareholder

This emphasis on control does not detract from the important role that passive ownership of assets through pension and provident funds, unit trusts, and other collective investment schemes can play in BEE. However, passive ownership by black people is in itself not sufficient to bring about a real transformation of our economy. Without active participation in managing worker-owned funds, and similar investment instruments, investors have very little control over the direction of investment decisions made by fund managers. Passive ownership of enterprises can also lead to a form of 'fronting' and this needs to be guarded against.

#### Human resource development and employment equity

This component of the scorecard focuses on the development of the employees of an enterprise or sector as well as employment equity. Enterprises are required to comply with the provisions of the Employment Equity Act to bring about an equitable representation of black persons in all occupations and at all levels of the organisation over a period of time. The involvement of black persons in operational, professional cadres and executive decision-making is a critical aspect of BEE. Given the legacy of systematic labour market discrimination and inferior education, accelerated skills and advanced professional skill development is also important.

#### Indirect empowerment

In order to grow our economy, more enterprises are needed to produce value-added goods and services, to attract investment, and to employ more of our people in productive activities. Thus, a core component of the BEE strategy is the creation and nurturing of new enterprises by black people. Preferential procurement by both the State and the private sector is an effective and efficient instrument to drive BEE as it provides emerging black enterprises with opportunities to expand their output. The scorecard, therefore, includes a preferential procurement element.

A second element of indirect empowerment is enterprise development. This can take two forms:

- Investment in black-owned and black-empowered enterprises
- Joint ventures with black-owned and black-empowered enterprises that result in substantive skills transfer

Investment in black-owned and black-empowered enterprises is a crucial step in the provision of financial and intellectual capital to such enterprises. The key elements to be taken into account when making these types of investment are that there must be real economic benefit flowing to the recipient enterprise to enable it to be set up and run on a sustainable basis; effectively, there must be resultant operational capacity from the

investment into the enterprise; and, there must be active participation by black people in the recipient enterprise.

Joint ventures with black enterprises may involve processes such as outsourcing parts of the established enterprise's projects or jointly contracting for certain projects that will result in a transfer of skills to the black enterprise. The measure of the effectiveness of joint ventures is whether or not the black enterprise is able to perform the core elements of the joint projects on a stand-alone basis without compromising the competitive advantage contributed by either enterprise.

The residual 10% in the scorecard.

In order to allow sectors and enterprises to tailor the scorecard to their circumstances, a residual 10% of the scorecard is left to sectors and enterprises to determine. Government encourages sectors and enterprises to consider including some of the following in their scorecards:

- Infrastructural support to suppliers and other enterprises in the same area or community
- Labour-intensive production and construction methods
- Beneficiation
- Investment and support to enterprises operating in rural communities and the geographic areas identified in Government's integrated sustainable rural development and urban renewal programmes
- Investment in the social wage of employees (for example, housing, transport, and health care)

**The BEE Scorecard**

Core component of BEE	Indicators	Conversion Factor	Raw Score	Weighting	Total Score
<b>Direct empowerment score</b>					
Equity ownership	% share of economic benefits			20%	
Management	% of black persons in executive management and/or executive board and board committees			10%	
<b>Human resource development and employment equity score</b>					
Employment equity	Weighted employment equity analysis			10%	
Skills development	Skill development expenditure as a proportion of total payroll			20%	

<b>Indirect empowerment score</b>					
Preferential procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement			20%	
Enterprise development	Investment in black-owned and empowered enterprises as a proportion of total assets			10%	
<b>Residual 10%</b>					
To be determined by sector/enterprise				10%	
<b>Total Score out of 100%</b>					

### Indicators

The indicators outlined in the scorecard are provided as a guide. In practice, enterprises and sectors may use these ratios, analysis tables or mini-scorecards to provide the most accurate reflection of progress in each of the core components of BEE.

### Conversion factor

The conversion factor enables the scorecard to reflect progress made against the specific BEE targets that the enterprises and sectors have established. Targets will be set at sectoral level where an agreement on sector charters has been made. With regard to enterprises, codes of good practice will be issued on appropriate benchmarks or targets. The targets set out in the Mining Charter will be used as guide.

By way of illustration, the conversion factor in this scorecard is calculated as 100% target ratio. For example, if an enterprise established a target for the procurement of 5%, i.e. black-owned and empowered enterprises will provide 5% of total procurement, then the component factor for preferential procurement will be  $100/5$ , which is equal to 20. When that enterprise achieves this target, it will receive a score of 5% times 20 which is 100%, for achieving its target. If the enterprise only procures 3% from black enterprises in the first year, it will receive a score of 3% times 20, or 60%.

Core component of BEE	Indicators	Conversion	Raw Score	Weighting	Total Score
Preferential Procurement	Procurement from black-owned and empowered enterprises as a proportion of total procurement	Target is 5 % of procurement in 3 years		20%	
		Conversion factor :			
	Year 1 -3% Year 2 -5%	$100/5 = 20$	$3\% \times 20 = 60\%$ $5\% \times 20 = 100\%$	$60\% \times 20\%$	12%

**Weighting**

The weighting of each component reflects the relative importance that Government places on these components. The six core components of BEE are weighted to bring the scorecard to a maximum of 100%. The weightings total 100 in order to bring the scorecard to a standardised maximum score.

**Total score**

The total score will be calculated by the sum of the individual component scores and will be reflected as a score out of 100%.

**Ranking enterprises using the scorecard**

Using the scorecard as a guide, Government will rank and categorise enterprises for the purposes of preferential procurement, restructuring of state-owned enterprises, financing and other kinds of support. The precise weighting and score will depend on the actual transaction and will be adjusted according to the economic, commercial and financial situation.

Government will use the total score to rank enterprises according to their progress in achieving broad-based black economic empowerment. The following are samples of categories for preferencing:

- Total score of **65% and above** - **good** contributor to broad-based BEE
- Total score of **40% to 64.9%** - **satisfactory** contributor to broad-based BEE
- Total score of **below 40%** - **limited** contributor to broad-based BEE

These rankings will be used to guide the direction of Government support towards its BEE objectives. Preferential procurement policies and the qualifying criteria for Government incentives and support schemes will be reviewed and, where appropriate, amended on a case-by-case basis to reflect these rankings.

Government will also encourage the private sector to develop similar ranking systems in sector and enterprise charters and to use these rankings in their procurement systems.

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