

MOTIVATION FOR ADITIONAL FUNDS AND/OR AN ALTERNATIVE TRAINING FUNDING MODEL FOR THE AGRICULTURAL SECTOR

1. INTRODUCTION

This document has as aim and objective to demonstrate and motivate the need for additional funding and/or a more suitable funding model to generate sufficient funds in meeting the training needs of the primary agricultural sector.

Whilst the current skills levy/grant system or model introduced by the SA Government as a means of generating revenue to fund training in South Africa has proved to be generally effective and meets the needs and requirements of the majority of sectors, this is not the case for the **primary** agricultural sector. Having functioned and operated under the system for some years it is now evident that the structural base of the levy system, coupled to the unique profile and requirements of the primary agricultural sector in SA, do not generate sufficient revenue to effectively address the training needs and challenges of this sector. Given the important socio-economic role of agriculture within the South African society it is believed that such under-sourcing holds detrimental implications for the country as a whole and an urgent need thus exists to establish means of generating more funds via alternative sources or to alternatively develop a new funding model which is aligned to the unique needs, profile, circumstances and requirements of the farming component of the agricultural sector.

2. AGRICULTURAL SECTOR PERSPECTIVE

A profiling of the agricultural sector reflects the following major categories or target groups to be served:

- The **secondary** agricultural sub-sector (upstream and downstream enterprises) with approximately 300 000 employees.
- The **primary** agricultural sub-sector comprising of:
 - **Commercial farming enterprises** – approximately 45 000 farming enterprises with an estimated 925 000 employees – of whom a considerable percentage (350 000) are employment on a temporary basis (seasonal or contract workers).
 - **Emerging farming enterprises** – an estimated 650 000 people (many of whom are Land Reform beneficiaries) needing support to improve their efficiency and profitability to grow and expand their ventures into commercially viable enterprises.
 - **Subsistence farmers** – an estimated 1 200 000 people involved in some form of agricultural production on very small scale (for own consumption and/or as a means or supplementing income)

However, for the purpose of this document focus is given to the needs and requirements of the primary agricultural sub-sector only.

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More than 80% of the total land mass of South Africa is suitable for agriculture and South Africa's agricultural sector uses some 100 million hectares, of which about 85 million hectares is in the commercial farming areas, and the rest under communal forms of land tenure. Of the total agricultural land 12 million ha (14%) is deployed for arable farming; 84 million ha (84%) for extensive grazing and 2 million ha for forestry and nature conservation. Only 1,35 million ha (less than 2%) of the agricultural land area is irrigated.

More than 12 years of land reform have had little effect on the profile of the agricultural sector and it is generally still classified by racial, spatial and scale features. The stark contrast that exists in the sector is evident from the following:

- Approximately 45 000 commercial farmers who are predominantly white are found in almost 85% of the total agricultural area that is highly developed and produces more than 95% of the marketed output.
- In contrast close to 2 million people (small scale and subsistence farmers with an average farm size of less than 2 ha) form part of the 15 million black people who are mostly settled in the communal areas that make up 15% of the agricultural land area. Agricultural activities are of such small scale that farming only contributes about 10% to their total annual household income.

The Commercial Farming Sector:

Large Commercial Farming Enterprises:

Whilst little is known about the distribution of farm sizes in South Africa's commercial agricultural sector, the Census of 2002 nevertheless provided some data in this regard and indicated that the 2 330 largest farming enterprises (representing 5 percent of the commercial farmers) produced 52 percent of gross farm income and in the process used 47 percent of the capital in agriculture. These farmers earned around R25 for every Rand of capital expenditure, compared to R18 for all farmers on average, and paid cash wages that were considerably higher than the average cash wage in the sector. It is safe to assume that there is a strong overlap between the above indicated large farming enterprises is the same group of enterprises (approximately 2 700) from the primary agricultural sector that pay levies to AgriSETA. It is also safe to assume that their training needs are being catered for through the current levy-grant system administered by AgriSETA.

Smaller Commercial Farming Enterprises:

However, the picture looks quite different at the other end of the spectrum of commercial farmers. The 2002 statistics revealed that more than 50 percent of the commercial farming enterprises have a turnover of less than R300 000 per year, and they are responsible for only some 15 percent of gross farm income, using 28.5 percent of the capital assets in agriculture. These farmers pay less than the average cash wage, and produce less than R10 for every Rand of capital expenditure. While little is known about the characteristics of this group of

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farmers from the available survey sources, international experience shows that it is a diverse group. It will include, for example, elderly farmers whose businesses are in the process of winding down because they have no successors (or at least none willing to farm); young farmers embarking on a new enterprise; lifestyle farms whose owners do not want to or possibly do not need to earn an income from farming; part-time farmers who do not need to earn their full livelihood from agriculture; and small-scale urban farmers who supplement their other sources of income with some agricultural activities; or some combinations of these.

Table 1 below provides a good summary of critical statistics in the commercial farming sector:

Table 1: Principle farming statistics by income group, 2002

Income (R per year)	No of farms	Cum (%)	Wage per employee (R per year)	Gross farm income (R000 per year)	Cum (%)	GFI per R1.00 of capex)	Market value of assets (R000 per year)	Cum (%)
> 10 000 000	673	1.5	10503	17 850 383	33.5	27.59	16257 953	16.5
4 000 000 – 9 999 999	1657	5.1	7758	10 330 424	52.8	23.48	14 188 233	30.9
2 000 000 – 3 999 999	3041	11.7	4872	5 056 986	62.3	11.65	15 132 953	46.3
1 000 000 – 1 999 999	5214	23.1	6743	7 351 291	76.1	20.28	13 022 084	59.5
300 000 – 999 999	11805	48.9	4729	5 335 646	86.1	17.13	11 802 362	71.5
< 300 000	23428	100	4266	7 404 322	100	9.85	28 024 669	100
Total	45 818		6298	53 329 052		18.1	98 428 255	

Source: Statistics South Africa, 2005. *Census of commercial agriculture 2002: financial and production statistics*. Pretoria, Statistics South Africa

Emerging Farmers (including Land Reform Beneficiaries)

A further major farm enterprise grouping is the so-called emerging farmers (which includes Land Reform and Agri BBBEE beneficiaries). It is assumed that a certain portion of these farmers will fall into (or overlap with) the estimated 42 000 smaller commercial farmers discussed above. Whilst the exact number of emerging farming enterprises is not known, a consolidation of statistics from various sources suggests that as many as 650 000 people fall within this category

Given the profile as this category of farmers (namely many needing further technical/production knowledge and expertise and the overwhelming majority lacking farm management experience and expertise) the require considerable training, development and capacity building services. This is particularly important when considering that the collective aim of Land Reform is to ensure the transfer of 30% of all agricultural land over a period of 15 years. Estimates by the Department of Land Affairs suggest that LRAD costs (both land grants and planning grants) to achieve the above target is in excess of R 20 billion. It is evident that considerable agricultural support services (including training and capacity building) are **needed to ensure that the above capital investment is**

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put to productive use and to secure such investments and food security in the country.

3. NATURE OF THE CURRENT FUNDING MODEL AND ITS APPROPRIATENESS IN MEETING FUNDING NEEDS/REQUIREMENTS

3.1 Basis for establishment of a Levy Grant Funding System

Following extensive research in the mid nineties (both internationally and locally) regarding various models or approaches of generating revenue to fund training in South Africa, the SA Government introduced a skills development levy (via the Skills Development Levies Act, 1999). The levy system introduced essentially follows a levy-grant scheme whereby employers contribute 1% of their payroll into a central fund and are eligible to claim back a portion thereof for approved and accredited training initiatives and interventions (via mandatory and discretionary grants). At large the levy has been effective and a projected income for all the economic sectors amounting to approximately R 22 billion will be collected over the period 2005-2010 towards implementing and attaining the vision, mission and principles/objectives of the National Skills Development Strategy and meeting the national priority areas outlined in the NSDS.

Whilst the various research studies undertaken by and on behalf of the NTB (at the time when the levy was introduced) recommended a levy-grant system as most suitable for South Africa, the research also revealed there is no single “best” funding mechanism or model for all and that whilst the introduction of a uniform levy system (introduced for the country and economy as a whole) will facilitate the administration thereof, it should be noted that it will not be equally suitable and effective for all sectors. In this regard two important conclusions and recommendations were made at that stage:

- Where economic sectors (SETAs) can not finance their training demands and obligations from levy income only (for a variety of reasons), a need exists to supplement their revenue by means of other financing forms or sources (e.g. via budgetary appropriations or via allocations from the NSF). It was found that most countries use a plurality of financing forms consisting mainly of budgetary appropriations, levy schemes, tax incentives and private and donor expenditure. In countries such as Australia and New Zealand budgetary appropriations (via the fiscus) are for instance dominant – mainly because it is flexible to accommodate changing funding demands and requirements.
- It was further concluded that a levy based funding mechanism (especially if implemented on a uniform basis) should be reviewed on a regular basis to establish if it is accommodating the unique requirements of a sector and its constituents and/or to make adjustments to address changing environments and circumstances. In this regard international research for

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instance revealed that a levy-grant system is not ideal for economies or sectors dominated by small enterprises and informal sector operators, and that changes in the operating environment resulting from shifts in political priorities and focus often demand additional or complementary revenue sources to address needs. Both these conditions prevail in the agricultural sector (as clearly outlined in point 2 above).

Having implemented the levy/grant system for a period of more than 6 years it is now possible to evaluate and assess its appropriateness and effectiveness as a funding model and its ability to generate sufficient funds to effectively address the skills development needs of the country. Whilst this aspect is dealt with in more detail in section 3.2.2 below, it can be stated that a number of shortfalls and constraints are being experienced with the model – necessitating a review thereof with a view to increasing the funding base generally and to address specific problems experienced by particular economic sectors and target group beneficiaries.

3.2 REVIEW OF THE LEVY/GRANT SYSTEM AS FUNDING MODEL

3.2.1 General Review and Problems with the Funding Model

Following its recognition that a need exists to review the levy based funding mechanism on a regular basis to establish its suitability in meeting the needs of all constituencies, the Department of Labour (with the support of GTZ) recently commissioned consultants to develop a Briefing Paper for the NSA on Funding (May 2007).

A key finding stated in this Paper is that internationally the trend is towards using a levy grant system and tax incentives to generate funding for training of the **employed**, and budget votes to finance training of other stakeholders such as the **unemployed** or under-employed. This is equitable in that workplace training is funded by employers, and employers do not cross-subsidise other stakeholders such as the unemployed – with the fiscus looking after these groups through the tax pool and thereby politically ring fences corporate funding from what is seen as welfare or macro socio-political issues.

The paper further states that in contrast with the above international trend, in South Africa the levy-grant system is used to finance **both** the above clusters of beneficiaries – with employers cross-subsidising vulnerable groups and the socio political skills equity agenda through the NSF. The problem is that the NSF is increasingly being called upon to deliver beyond its resources. Within this environment of increasing competition for NSF funding, the allocation of NSF funds to address the skills requirements and needs of especially vulnerable and non-levy paying groups will be difficult with the existing funding base.

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Proposed Solutions:

Following the conclusion that greater financing is required (especially by the NSF) to undertake skills development, the Paper offers the following suggestions as means of how more revenue could be generated to address the skills needs of especially non levy paying groups:

- Through targeted budget votes (from the central fiscus)
- Through cost savings (achieved primarily via consolidation of SETAs and centralisation of certain functions)
- Through a reduction of the mandatory grants – thus freeing more funds for discretionary grants – targeted at such vulnerable groups

3.2.2 Review of the current funding model from an Agricultural Sector perspective.

Against the above profile of the primary agricultural sector (and the key target groups to be served with agricultural education and training services), an analysis and evaluation of the skills development funding model revealed the following as specific problems, shortfalls and constraints:

- The sector is complex in that it consists of a large and fragmented number of stakeholders (e.g. more than 70 commodity groups/organizations; 9 Provincial Departments of Agriculture) and it is highly diversified in terms of clientele – each with unique needs and requirements (ranging from commercial farmers to emerging AgriBEE farmers), which makes service rendering complicated.
- It has an insufficient revenue base as a result of the small number of employers that are paying the skills development levy and who are thus contributing to the revenue pool (as little as 3 500 employers are currently contributing – of whom 2 700 are from the primary agricultural sector). The problem is further compounded in that more than 70% of those that are contributing are classified as small enterprises (with less than 50 employees – and who thus contribute relatively small amounts when compared to many of the other sectors). In addition the majority of the estimated 650 000 emerging farmers are at present informal or unregistered enterprises who also do not pay the skills levy and thus do not contribute to the revenue pool. They are however in dire need of skills development and capacity building services. At present the AgriSETA (as the authority mandated to facilitate, guide and direct training in the agricultural sector) primarily utilizes its discretionary funds to address the needs of the employed target group. Limited funds are available to be allocated to the unemployed or under-resourced – as a result these funds fall dismally short of the demand.
- The above lack of financial resources result in an inability of the primary agricultural sector and its stakeholders to effectively address and meet the

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skills development needs and demands of the sector. This inability manifests itself as follows:

- Service rendering is primarily focused on (and limited to) servicing the needs of levy payers – with the remainder of the sector being neglected. Of particular importance is the inability of the Department of Agriculture (and other implementing agencies such as AgriSETA) to render services to Land Reform Beneficiaries (emerging farmers) and thus facilitate and enhance the land reform process in the country (through securing the investments made in land reform by providing beneficiaries with the necessary skills to make a success of their farming ventures).
 - Despite the above indicated narrowing of focus in service delivery (i.e. servicing levy payers only), the AgriSETA is still not in a financial position to effectively and comprehensively address the needs of this relatively small levy paying target group (examples of shortfalls and constraints as a result of limited funding resources are that in 2007/2008 only 10% of the Learnership applications could be accommodated whilst less than 5% of the applications for enrollment on Skills Programmes could be embarked upon).
 - The demand for ABET is so large and overwhelming (an estimated 30% of the total agricultural workforce is illiterate) that the SETA can not cope with the demand from own resources and will have to rely on the Department of Education and Training to address this training need.
- The above insufficient revenue pool generated via the Skills Development Levy thus implies that the Agricultural Sector stakeholders must increase or supplement its financial resources from other sources of funding. Whilst some additional funding allocations have been received from the National Skills Fund (NSF) in the past, such support has been rather small and disappointing to date. It is believed that this poor access to the NSF is because the latter primarily evaluates funding applications from an industrial development perspective and higher order qualifications (whereas the agricultural sector, given the status of education levels in the sector, more often than not requires learning interventions to commence at the lowest levels of the NQF). In this regard it is believed that the administrators of the NSF lack the necessary insight into the socio-economic and political importance of the agricultural sector, and do not comprehend the need for a different training approach (e.g. via mentorships for emerging and AgriBEE farmers) towards meeting the particular skills development needs, circumstances and unique funding requirements of the agricultural sector)

International Research by AgriSETA towards identifying possible solutions:

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In an attempt to obtain solutions for the above indicated problems and constraints experienced by the agricultural sector with the existing funding model and mechanism, the agricultural sector, via its skills development agency, the AgriSETA, commissioned research into alternative international models or means of financing training. This research, undertaken by the Department of Agricultural Economics at the University of Stellenbosch in 2007, revealed numerous alternative approaches and means towards financing training.

From the international experience of financing training it was established that, similar to the South African situation, the mainstream financing models and mechanisms are all biased towards the larger and industrial firms, with those needing support most, the small and medium enterprises as well as the informal sector, not really reaping the benefits from such mechanisms. Internationally a need for additional financing that is focused on the needs and requirements of these groups were thus identified.

Whilst a single model perfectly suited to the South African environment (and the agricultural sector in particular) was thus not forthcoming, some excellent ideas and means of how income generated via a levy system could be further complemented or supplemented were established. In this regard examples of further direct funding support for specific sectors or target groups (e.g. for the SMME and Informal Sectors) and which could possibly be applied in the South African agricultural context include the cross-subsidy approach, the training voucher scheme, supplementary government budgetary allocations, etc.

4. NEED FOR ADDITIONAL FUNDING AND/OR A MORE SUITABLE FUNDING MODEL TO ADDRESS THE SKILLS DEVELOPMENT NEEDS OF THE PRIMARY AGRICULTURAL SECTOR

The earlier sections of this document clearly reflect the need for adjustments to the existing funding model and/or mechanisms towards meeting the vast skills development needs of the primary agricultural sector. It is believed that a clear case has also been made regarding the unique needs and requirements of the agricultural sector, and the enormous socio-economic and political impact that a failure to address the training requirements of especially Land Reform Beneficiaries will have on the country.

Whilst this document does not attempt to propose clear-cut solutions, it is evident from the research undertaken by the DoL consultants (who developed the Funding Paper), as well as the research undertaken by the Stellenbosch University on behalf of the AgriSETA, that a potential solution exist and that there is a need for such to be exploited further. From the knowledge gained through the above research process, the following conclusive remarks on the need for additional skills development funding for the agricultural sector's vast under-resourced component, are made:

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- The levy/grant system as it is currently structured, is successful for purposes of developing the employed worker (i.e. to benefit the levy payer). Irrespective of any possible shift in the ratio between mandatory and discretionary funds (with a possible increase in the discretionary fund pool in future), all discretionary funds should be retained to be used for strategic interventions aimed at meeting critical and scarce skills of employed workers (18.1 learners) in the primary agricultural sector (Objective 2 of the NSDS II).

Thus, the AgriSETA discretionary fund does not generate any solutions for the under-resourced sector (Mainly Objectives 3 and 4 of NSDS II). As stated earlier in this paper, the sheer size of under-resourced sector (with specific reference to agricultural land reform beneficiaries) is so large, **that AgriSETA's discretionary fund cannot be considered as an option** to resolving the development needs of the said sub-sector.

- Special budget votes (via the central fiscus) and/or special and most importantly, stable, allocations from the NSF to undertake strategic interventions aimed at meeting the training needs of so-called 18.2 learners (for the purposes of this document including Land Reform Beneficiaries, other emerging farmers and vulnerable groups) towards meeting Objectives 3 and 4 of the NSDS II. The enormous responsibility that exists in providing Land Reform Beneficiaries and other emerging farmers with the required competencies to make a success of the land reform and AgriBBEE programmes is grossly neglected due to the lack of suitable funding resources forthcoming from the current levy/grant system and it is clear that the size and scope of training demand will necessitate additional special budget votes and allocations.
- It is further evident that the unique nature and requirements of the primary agricultural sector (and the above indicated vulnerable groups in particular) will demand long term funding solutions since the challenge is of such a nature that it will not be solved through a single or ad hoc injection of funds.

It is thus the purpose of this paper to engage the Department of Labour and National Treasury in intensive and urgent discussions with the Department of Agriculture with regards to a way forward. The current state of affairs of skills development in the agricultural sector is unacceptable and need to be addressed as a matter of priority. If the national imperative of agricultural land reform is to succeed, collectively, the State and sectoral stakeholders have to prioritise the development needs of beneficiaries and engage in high-level focused debate with the purpose of finding solutions to the current dilemma.

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