

LAND AUDIT:

A Transactions Approach

November 2017



We develop the South African Agriculture Industry.
Ons ontwikkel die Suid-Afrikaanse Landbou Industrie.

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Introduction

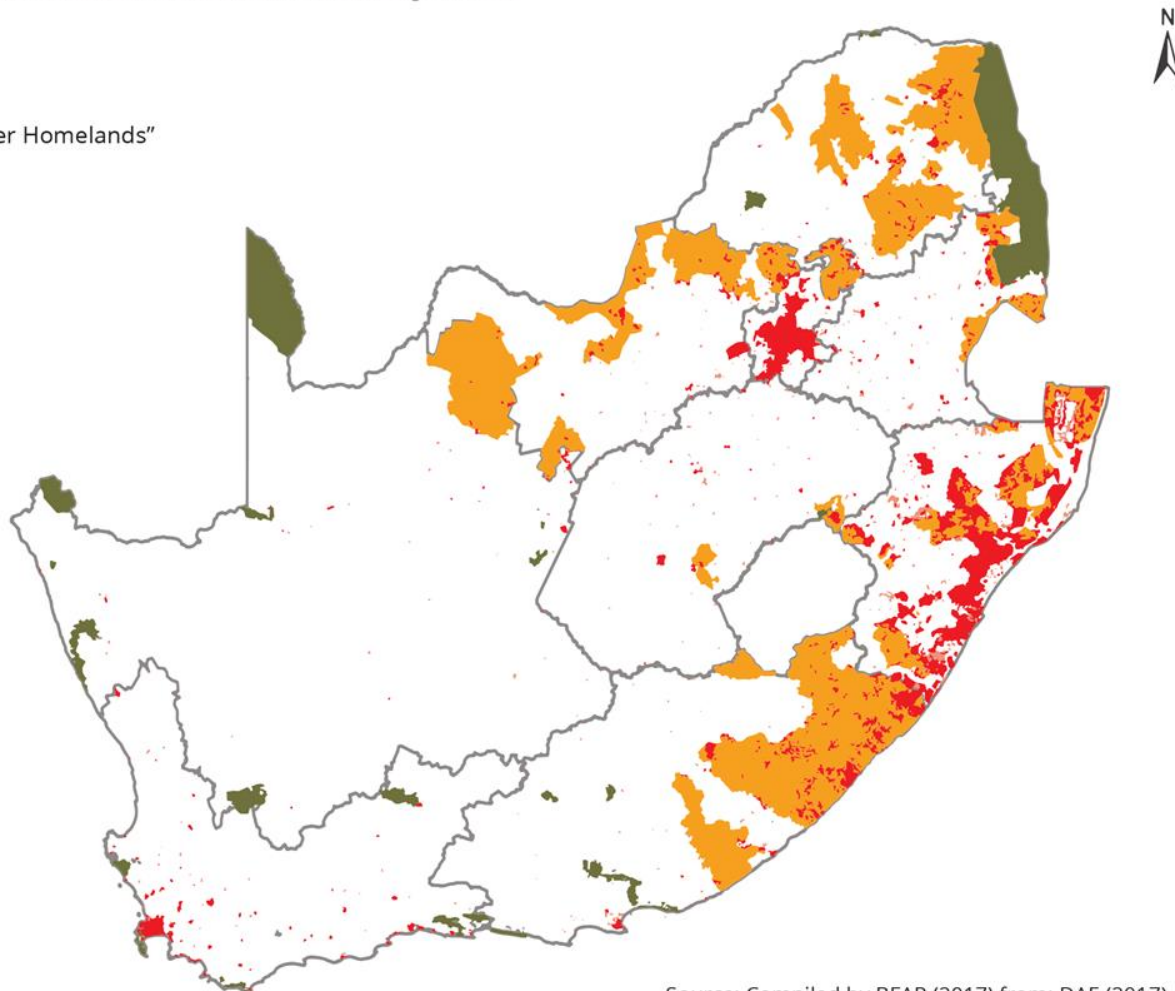
The question of land ownership is a key part of the policy debate on land reform and rural development.

Unfortunately, up to now there was a lack of reliable data.

The purpose of our report is to inform the debate on a factual basis.

National Parks, Tribal Authorities and Build-up Area

- Build-up Area
- Tribal Authorities - "Former Homelands"
- National Parks



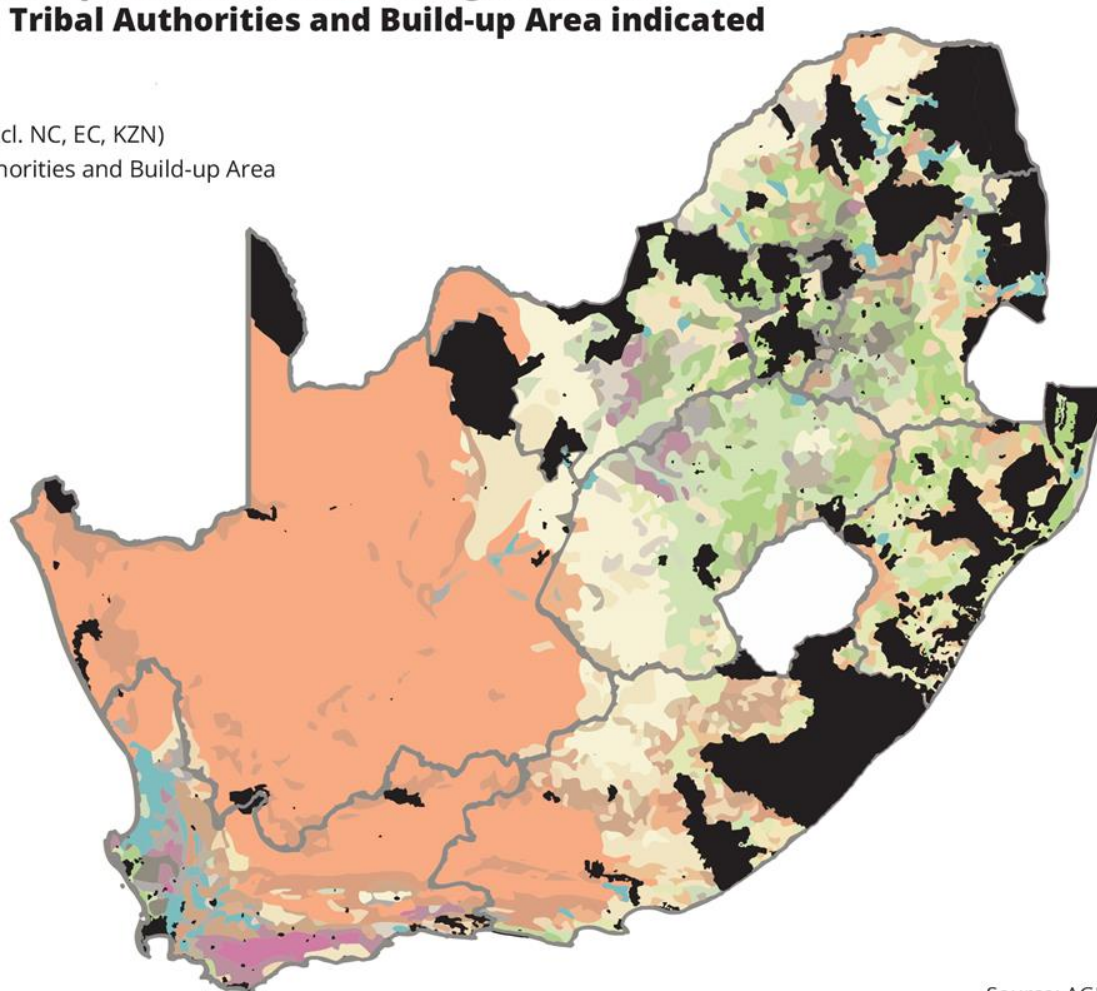
Source: Compiled by BFAP (2017) from: DAE (2017), DAFF (2016) and DWA (2006)

Land Capability, Cash Crop Cultivated Land & Irrigated Land with National Parks, Tribal Authorities and Build-up Area indicated

- National_Irrigation_FCB
- Dryland Cropped Area (Excl. NC, EC, KZN)
- National Parks, Tribal Authorities and Build-up Area

Land Capability
CLASS

- I
- II
- III
- IV
- V
- VI
- VII
- VIII
- Water



Source: AGIS (2008), DAFF (2014) and IVIS (2015)

Approach & Data Validation

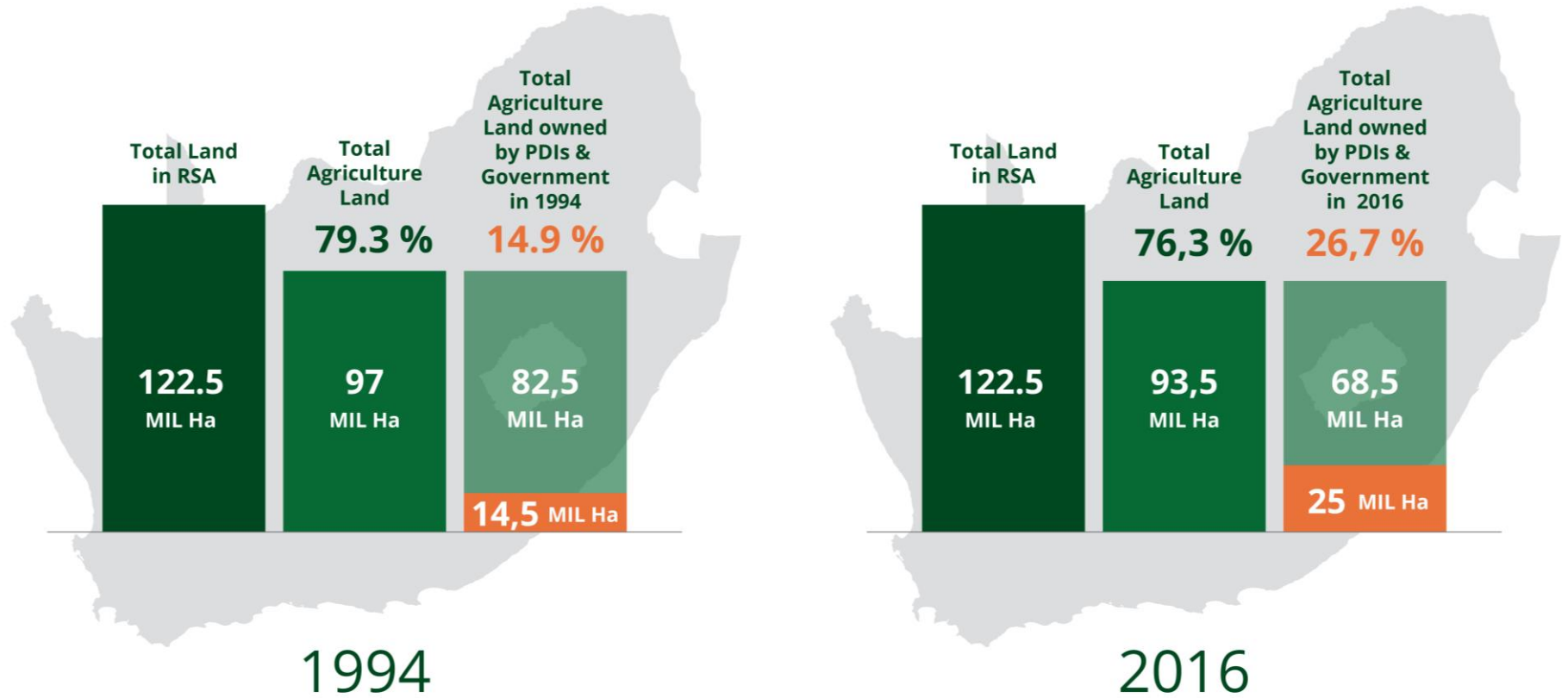
- ADS and Landbou Weekblad Research Collaboration

- Agri SA Support

- The transactional data compiled by ADS, forms the basis of the report and this presentation.

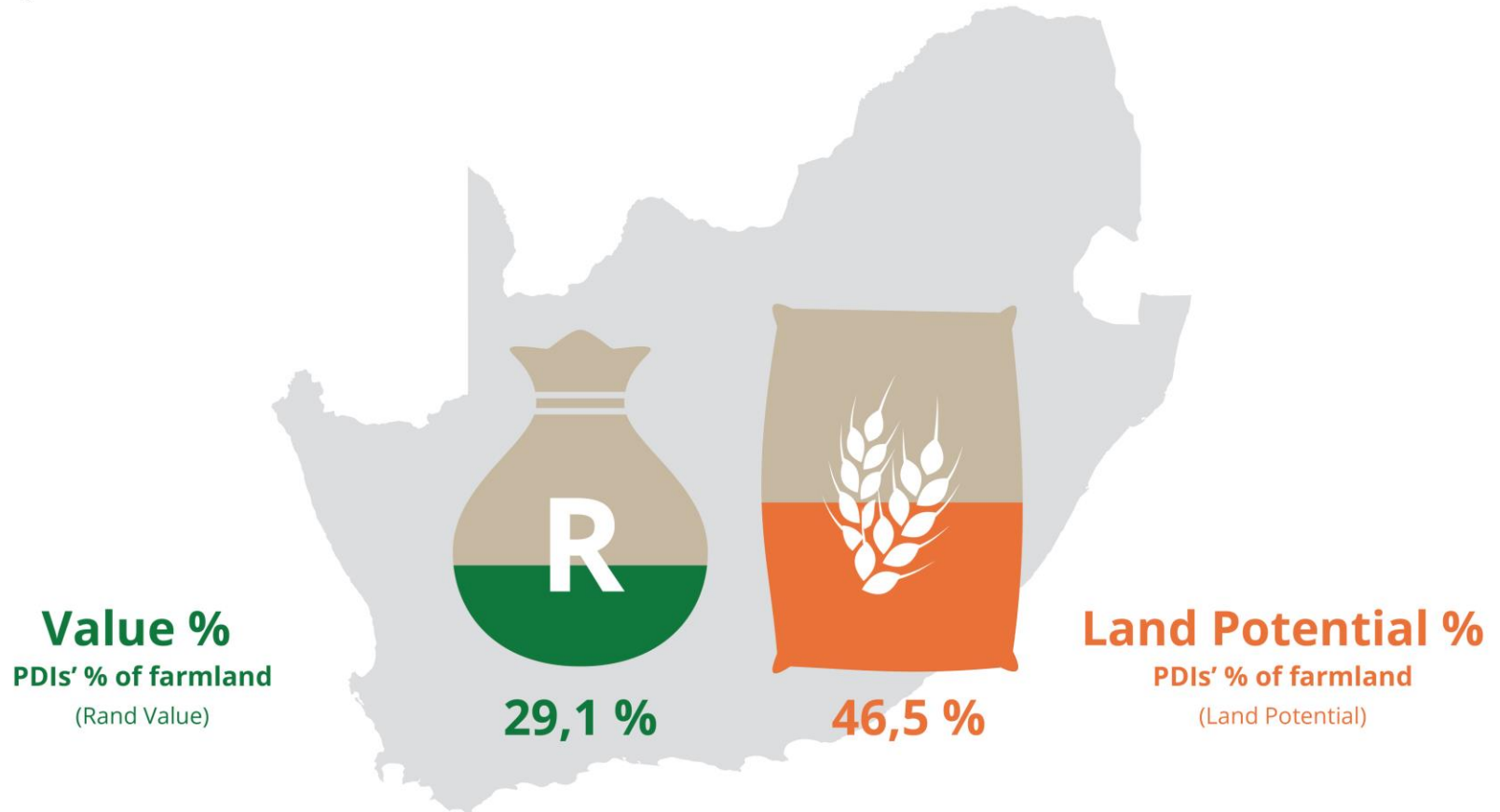
- Agri SA appointed Nkonki Pretoria (Nkonki) to perform an independent and external data validation analysis of the transactional data provided by ADS. Nkonki is a firm of registered auditors, accountants and advisors.

Analysis



Value and Land Potential % of Agricultural Land

by PDIs and Government





LAND STRATEGY



NEW LAND STRATEGY

November 2017



What do we want to achieve?

Factual Basis - point of departure
Sustainable Agrarian Reform
Economic Growth
Job Creation



Alignment with:

Constitution
NDP Development Goals
(Chapter 6 - 2030)
Operation Phakisa
(Agricultural Development Component)

KEY POINTS

STRATEGY ELEMENTS

AGRI SA

1. Fact Based Analysis



- Informed Debate
- Commercial Point of Departure
- Reality Check - Revision of Strategy



- Focus on High Potential Agricultural Land
- Underutilised Communal Rural Areas
- High Potential Growth & Employment
- Create up & downstream Industries



Holistic Plan and Land Audit

2. High Potential Land

53,5 % Commercial Farmers **Funded** ✓
46,5 % PDIs & Government **Funded** ✗



- Open Market:
Transfer 2 x quicker than via government
- Property and Security of Tenure
- Value Chain Integration



- Finance Models
- Beneficiaries
 - PDI/Traditional Leaders
 - Commodity Organisations
- Communal Landfunding Models
- Move Funding to Private Sector



Finance Models & Partnerships
with Banks and Commodity Focus
Fraud/Corruption Free Approach:
Transparent & Public

3. Redistributed Land



- CPAs
- Emerging Farmers (LRAD;PLAS)



- Funding Rethink
- Post Settlement Support
- Value Chain Integration
- Private & Public Sector Partnership



Transformation Hub,
Commodity Focus and
Post Settlement Support

Strategy Revision

The following components should re-focus our strategy



What do we want to achieve?

1. Establish the factual basis of land distribution as a point of departure
2. Sustainable agrarian reform
3. Economic growth and job creation



Alignment of the strategy must be in line with:

1. Constitution and the rule of law
2. Property right protection and conversion
3. NDP goals – Chapter 6
4. Operation Phakisa (agricultural development component)

Source:

1. National Treasury Multiplier Model. Christianensen et al (2011); 3. Ligon et al. (2007); 3. Haggblade et al. (2007).

Agriculture Workstream



Why is Growth in Agriculture Important for South Africa?

Agriculture Matters for Poverty Reduction

- 3.2 times better at reducing poverty than non-agriculture
- 1% in GDP due to agriculture increases income of poorest by more than 6%
- Substantial multiplier effects – significant job creation potential due to extensive linkages with the rest of the economy
- Can create economic opportunities in rural and peri-urban areas

The Job Creation Potential of Agriculture

- Agriculture employs 668,582 semi- and unskilled workers (Quantec, 2015) - Compared to 607,788 in manufacturing and 383,542 in mining
- Farm workers experienced real increases in wages between 1994 and 2012 that were accompanied by large increases in labour productivity (Wittenberg, 2014)
- Median monthly wages in formal agriculture remain competitive at R2,200 per month compared to R7,000 in mining and R3,300 in the retail and trade sector (Statistics South Africa, 2014)

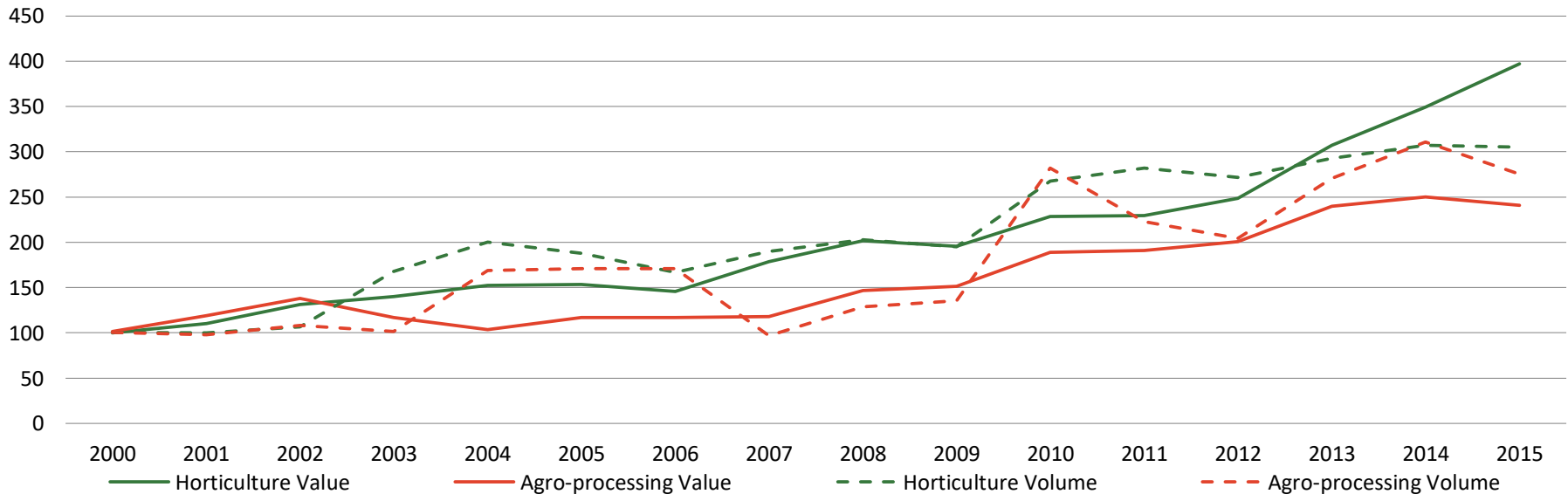
Top Ten Multipliers for SA (Ranked by Employment)⁽¹⁾

Sector	Domestic Output	Employment
Other Business Services	1.9	6.1
Construction	2.2	5.8
Forestry	1.8	5.5
Trade Services	1.7	5.4
Live Animals	1.8	5.4
Construction Services	2.0	5.3
Fishing	1.8	5.3
Research & Development	1.7	5.2
Agriculture	1.7	5.1
Leasing & Rental Services	1.9	4.8

Source:

1. National Treasury Multiplier Model. Christianensen et al (2011); 3. Ligon et al. (2007); 3. Haggblade et al. (2007).

Rapid Rise in Value of Agriculture Exports (High-value Products)



- **Agriculture exports have outperformed agro-processing. Due to string focus on agro-processing, industry has convinced government to treat exports of high-value produce also under agro-processing**
- Preference of agro-processing (i.e. manufacturing) over primary agriculture should not exclude the labour-intensive high-value export orientated industries
- Technological sophistication, R&D, packaging, temperature and disease control, computerised logistics, etc in producing a fresh orange or avocado for foreign market often outstrips that of orange juice or avocado oil (Cramer and Sender, 2015)

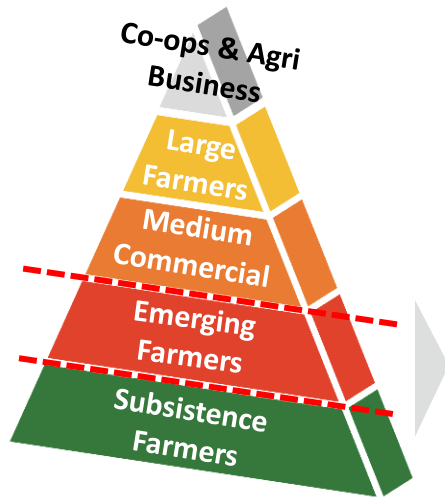
Source: Quantec, 2016.

Source:

1. National Treasury Multiplier Model. Christianensen et al (2011); 3. Ligon et al. (2007); 3. Haggblade et al. (2007).

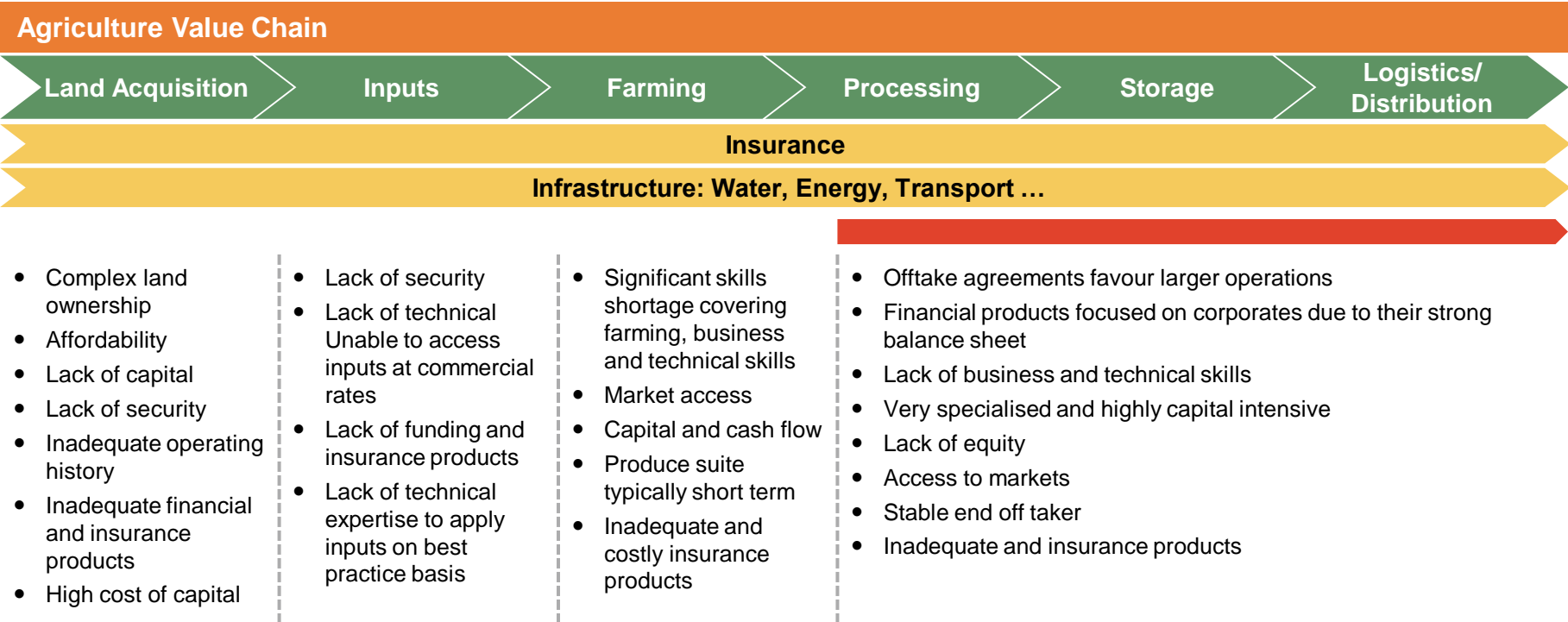
Model - Emerging Farmers

Agriculture has the Ability to Unlock Economic Development, Transformation and Job Creation that is Required to Address our Country's Long Term Development Challenges...



Target Market Profile		Commercial Funding Solutions Available
Agri Business	<ul style="list-style-type: none"> Provide agri-inputs and services to farmers, use agri-produce as inputs (market for farmers) or on-lending. Includes: Large Agriculture; Corporates; Specialised Agriculture; On-lenders (intermediaries). 	✓
Large Farmers	<ul style="list-style-type: none"> Operate on large agricultural land; capacity to influence/ dominate the market; agro-processing capability. <ul style="list-style-type: none"> Asset value: >R100m Turnover: >R500m – R1b 	✓
Medium Commercial	<ul style="list-style-type: none"> Established in commercial farming with skills and access to markets. <ul style="list-style-type: none"> Asset value: R10m – R100 Turnover: R5m–R500m BBBEE threshold: <R10m turnover (EME); R10m – R50m (QSE) 	✓
Emerging Farmers	<ul style="list-style-type: none"> New to commercial farming with some access to markets Weak financial security (collateral) <ul style="list-style-type: none"> Asset value:<R5m Turnover: <R0.5m – R1.5m 	No Solutions – Core Focus
Subsistence Farmers	<ul style="list-style-type: none"> Subsistence farmers do not form part of the Land Bank's target market – they are serviced by DAFF/DRDLR Operate small allotment and own few livestock mainly for own consumption 	Not Within Scope of Work

However, Unlocking the Potential of the Sector for New Entrants has Significant Challenges Across the Entire Agri-Value Chain...








Challenge Summary: Emerging Farmers



Critical Success Factors

Multifaceted approach required for success...parties have different but crucial roles to play in ensuring success of programmes

Government	<ul style="list-style-type: none"> • National Treasury • DAFF • DRDLR 		<ul style="list-style-type: none"> • Grant funding • Interest rate subsidisation
Private Sector	<ul style="list-style-type: none"> • Agri unions • Agri Corporates • Coops 		<ul style="list-style-type: none"> • Developmental programmes • Training and mentoring • Access to land, inputs, logistics, end markets, etc.
Commercial Funding	<ul style="list-style-type: none"> • Commercial Bank's • Agri Corporates • Coops • Insurers 		<ul style="list-style-type: none"> • Commercial funding • Insurance
DFI's	<ul style="list-style-type: none"> • Land Bank • IDC • PIC 		<ul style="list-style-type: none"> • Equity funding (patient capital concept) • Commercial funding (longer term, softer T&C's, etc.) • Intermediary role <ul style="list-style-type: none"> ▪ Distribution of grant funding (tied to loan) ▪ Distribution of interests rate subsidy loans ▪ Distribution of subsidised insurance products
Emerging/ Commercial Farmers	<ul style="list-style-type: none"> • Agri SA • TAU • AFASA • NAFU 		<ul style="list-style-type: none"> • Identification of Emerging Farmers to participate in programmes

Current Government Expenditure

2017/18

DRDLR
R 10,1 bn

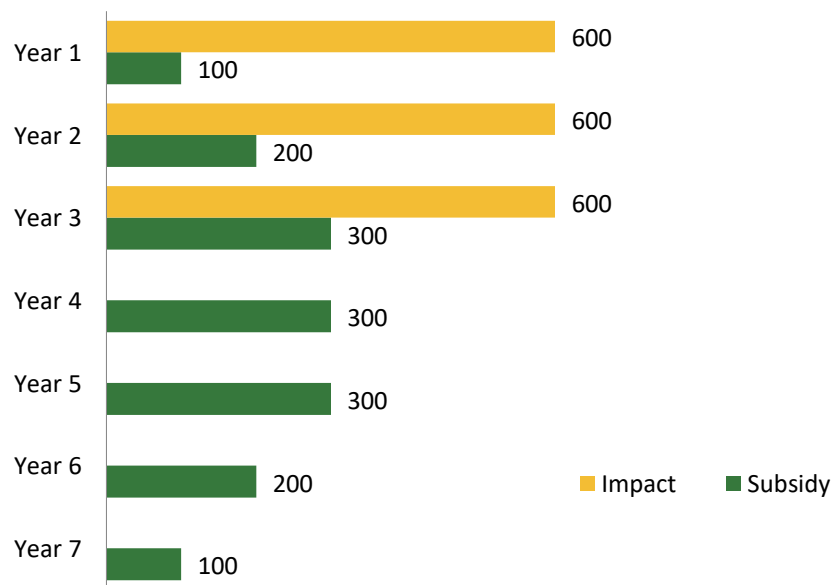
DAFF
R 6,8 bn

CASP
R 5,3 bn

Grants
145 000 People
124 000 People on Database

With Adequate Government Subsidy Support, the Impact of These Varied Funding Options will be Significant...

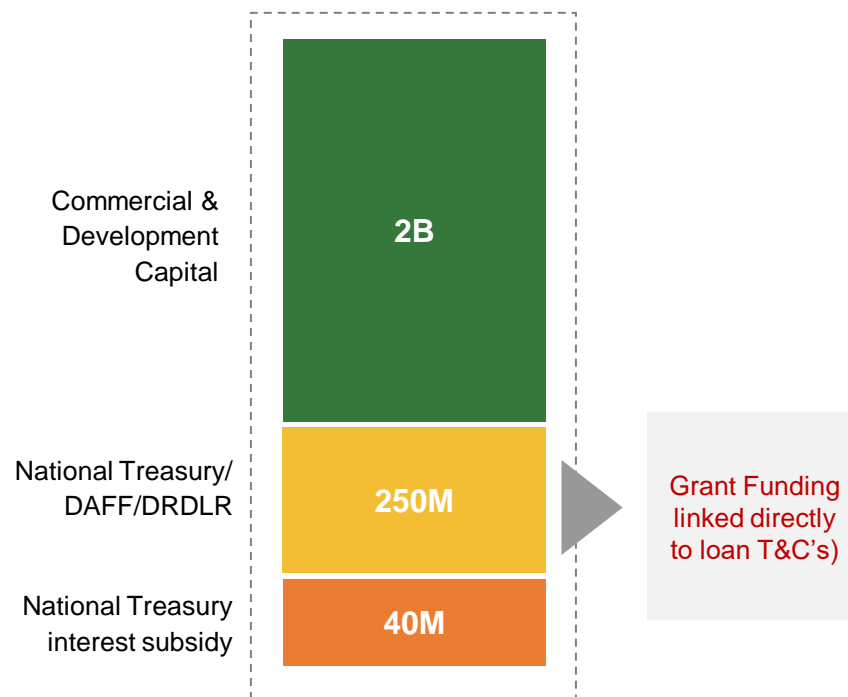
Subsidised Interest Multiplying Effect (R100m pa)



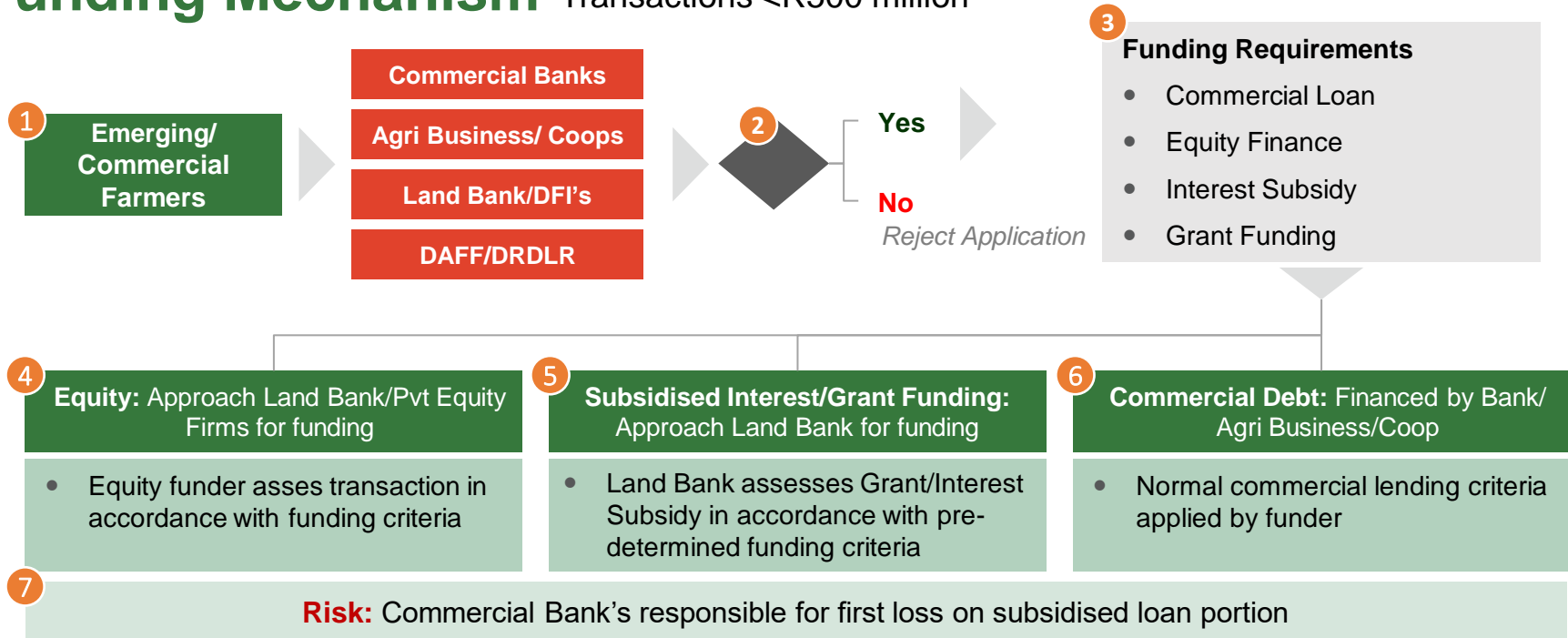
Average Multiplier effect of 50
i.e. for each R1 in subsidy support over 5 years, R50 can be spent on Emerging Farmers support in the first year of support

Illustrative Example

Based on a subsidy of R40m per year for 5 years, R2bn can be used in year 1 to support emerging farmers and to drive transformation...



Funding Mechanism Transactions <R500 million



- 1 Emerging Farmers approach funders of choice
- 2 Funder undertakes credit assessment ... funding decision made based on funders lending criteria
- 3 Funding structure determined viz Equity, Commercial Debt, Subsidised Interest & Grant Funding
- 4 Equity contribution and T&C's determined by provider
- 5 Applications for Grant Funding & Subsidised Interest Loans assessed by Land Bank in accordance with pre-determined funding criteria
- 6 Commercial loans provided by funder in accordance with their lending criteria
- 7 Commercial Banks responsible for carrying "First Loss: on subsidised interest loan if any losses arise"

Agri SA Transformation Report - Summary

R313 million

Spent on transformation in 2016/17

90%

increase from 2015/16

Agri SA member organisations increased their contribution to transformation projects to R313 million in 2016/17 from R 131 million in 2015/16. This is an increase of 90%. A total of 104 710 farmers benefitted from development programs such as training courses, mentorship programs, recapitalisation projects and social development initiatives.

104 710 Farmers Benefitted

Case Study Example

The National Wool Growers Association (NWGA) organises and provides training and mentorship to about 10 000 small-holder sheep and wool farmers. During the 1997/98 financial year these farmers produced 222 610 kg wool, which were valued at R1 502 908. In 2015/16, 4 462 089 kg, with a value of R233 618 025 were produced. The significant increase in production and income can largely be attributed to the training and mentorship provided by NWGA. The introduction of a ram-exchange programme improved the genetics of flocks and subsequently increased wool production.



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