

Agriculture Workstream

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Executive Summary

Executive Summary

Synopsis: The fundamental task of this workstream is to address agriculture specific themes as agreed by the workstream . These being: 1) Trade promotion, market access and water; 2) Financing and drought; 3) Agriculture growth fund (including Insurance)

1. Trade Promotion, Market Access and Water

- Broadly speaking the main objective of this workstream is to unlock investment in agriculture in order to boost growth. In this it is important to understand why growth is important for South Africa? Which crops can maximise the opportunities offered by growth in this sector. Crucially important is trade promotion and market access intervention as well as where water will come from and the potential impact of trade and water interventions on exports, and what the impact of export shock on GDP and employment will be. Lastly, what are the broader enabling environment capabilities to support continued growth in agriculture?
- *Background/positioning:*
 - Agriculture matters for poverty reduction – e.g. **1% in GDP** due to agriculture increases income to poorest by more than 6%. Play a role in creating economic opportunities in rural and peri-urban areas
 - Job creation potential – agriculture employs circa **670,000** semi and unskilled workers
 - SA agriculture is globally competitive – i.e. South Africa is leading exporter of many labour intensive products: macadamias, citrus, table grapes, wool, avocados. Further, SA agriculture exports are now larger than China, Mexico and Russia. SA exports have outperformed agro-processing
 - Rapid rise value of agriculture exports (high-value products)
 - ♦ Agriculture exports have outperformed agro-processing
 - Profitability is improving but farmers are not investment, for example, ration of investment to debt has steadily declined since 2007.
 - Substantial growth in high value fruit exports that are labour intensive. Key crops include apples, table grapes, citrus, wine, avocados, macadamia and pecan nuts and beef.
 - Trade promotion and market access required to exploit growth opportunities that maximise on-farm income

Executive Summary (Cont'd)

- **Key Messages:**

- **Interventions required:** implement required sanitary and phytosanitary standards and veterinary protocols and raise awareness of SA products in key export markets in the short term
- **Negotiate improved market access with key trading partners** In the medium to long term
- Leverage public-private partnerships (PPPs) to improve market access
- Improve market access through new or re-negotiated trade agreements
- Potential impact of trade and water interventions estimated at **R6bn in export revenue**
 - ◆ **0.25%** impact to GDP growth rate
 - ◆ Create **45 000** new jobs

2. Financing and Drought

- The purpose of this workstream is to address the issues related to the current drought crisis. South Africa experienced extreme drought conditions in 2015/16. Eight provinces or parts therefore still declared disaster rears. Grazing deteriorated and summer grain production decreased significantly. Further, commercial and emerging farmers face serious financial predicament and agricultural employment is at risk.
- This workstream recommended the following to address issues of financing and drought :
 - State guarantee scheme aimed at outstanding debt
 - Interest rate subsidy on carryover debt, farm worker support subsidy,
 - Interest rate subsidy on new production credit, soft loans aimed at herd rebuilding; and
 - Emergency measures with regards to water and food relief

Executive Summary (Cont'd)

3. Agriculture Growth Fund Proposal

- Agriculture growth fund seeks to develop and deliver meaningful funding solutions that drive growth employment and transformation.
- Two options proposed, one for transactions below R500m aimed at emerging farmers, and the other a blended equity / loan product for transactions greater than R500m
- **Option 1: Emerging Farmers model**
 - Aimed at emerging farmers with some access to markets but no commercial funding solutions available
 - Farmers tend to have challenges in respect of access to land, lack of equity and or security, inadequate technical services support, loan facilities not suitable for emerging markets, lack of capital and cash flow, no market access and inadequate insurance products and cover
 - Developmental issues, cost of capital and risk appetite are some of the reasons commercial funding model struggle to address emerging farmer needs
 - A multifaceted approach with key stakeholders (government, private sector, commercial funders, DFIs and Emerging Commercial Farmers) is therefore required for success
 - Funding mechanism for transactions less than R500m
 - Interest loan subsidization proposed
 - Subsidy to mitigate early stage operational and development risk and increase motivation for transformational efforts
- **Option 2: Blended equity / loan product**
 - A blended debt / equity approach to unlock investment greater than R500m
 - Many agricultural enterprises characterised by weak debt to equity ratios, thus restricting flow of debt financing into the sector, especially in capital-intensive operations . This calls for an increasing need for equity participation in this agricultural sector
 - Catalysing effects of a blended equity to debt funding approach, in particular:
 - ◆ Enhance enterprise to debt to equity ratios
 - ◆ Project derisking contributions
 - ◆ Attract additional capital
 - Injecting both debt and equity financing will unlock the potential of capital-constrained, high-value and high impact projects in identified sub-sectors. Funding mechanism through a Transaction Review Committee (TRC) proposed. Members to include Commercial Banks, Land Bank, PIC, DAFF and National Treasury
 - Holistic approach to promoting growth, employment and investment in agricultural sector



Introduction

Introduction

- At the meeting of the 29th January 2016 between the Minister of Finance and several CEO's representing South African business led by Mr Jabu Mabuza, three Workstreams were agreed to namely, **(i) measures required to prevent a downgrade of South Africa to junk status (ii) initiatives to build and support small enterprises and (iii) projects that can be undertaken to support vulnerable and growth sectors in the economy.** Dr Dan Matjila and Mr Sim Tshabalala were asked to lead the "Projects Workstream".
- As projects leads, they have agreed on the following terms of reference for the Workstream.
- The Projects Workstream will focus on making practical and actionable recommendations that are aimed at delivering on the below mentioned objectives:
 - Driving economic growth where such opportunities exist
 - Protecting industries and enterprises made vulnerable during the current period of excessive market turbulence
 - Identifying projects and investments that can unlock potential in the South African economy
 - Enhancing and utilising partnerships between the public and private sector wherever possible
 - Optimising the contribution that State Owned Companies (SOC's) can make to economic growth at the time
 - Maximising the impact that can be achieved by reducing government debt through proceeds that can be generated through the disposal of non-core assets.
- Sim Tshabalala convened a meeting of five banks (Barclays Africa, RMB, Investec, Nedbank and Standard Bank) on the 17th February 2016 to agree on the focus sectors for the Projects Workstream. Eight key sectors were identified as requiring immediate attention of government and business. Each of the banks agreed to produce an initial synopsis on the allocated sectors/s. The allocation of sectors to the banks is as follows:

Banks	Sectors
Barclays Africa/ABSA	Agriculture and Education
Investec	Mining
Nedbank	Building and Construction
RMB	Export Services and Health
Standard Bank	Manufacturing and Tourism

Introduction (Cont'd)

- The following pages provide an account of the detailed work that the agriculture workstream has been working on. This workstream is sub divided further into four workstreams as follows:
 - Trade promotion, market access and water
 - Financing and drought
 - Agriculture growth fund (including Insurance)
- This document has been made with inputs and collaboration from numerous industry stakeholders, see Appendices section for full list.



Agriculture Workstream Update

Agriculture Workstream Updates

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Trade Promotion, Market Access and Water

Presented by:

Ferdi Meyer – BFAP

Duncan Pieterse – National Treasury

Unlocking Investment in Agriculture to Boost Growth

- Why is growth in agriculture important for SA?
- Which crops can maximise the opportunities offered by growth in agriculture?
- Understanding the scope of the opportunity in agriculture
 - Overview of the modelling process
 - Key trade promotion and market access interventions
 - Where will the water come from?
 - Potential impact of trade and water interventions on exports
 - Impact of the export shock on GDP and employment
- Broader enabling environment to support continued growth in agriculture

Why is Growth in Agriculture Important for South Africa?

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

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

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)

Source:

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

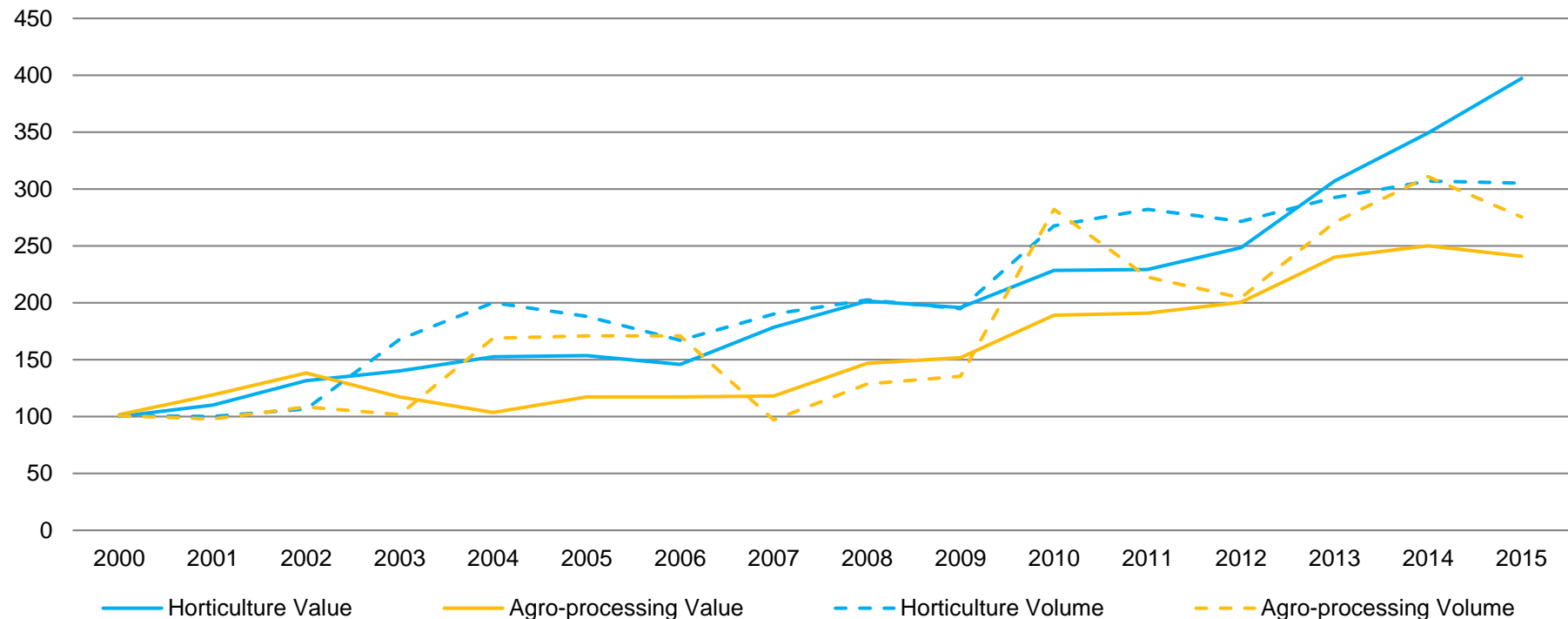
SA Agriculture is Globally Competitive

Country	Agriculture value added per worker constant 2005 (US\$)	Agriculture value added (% of GDP)	Employment in agriculture (% of total employment)	Agriculture exports (% of merchandise exports)	
				2005	2014
South Africa	7,238	2.0%	5.0%	10.2%	12.5%
Brazil	5,470	6.0%	15.0%	29.6%	39.0%
Chile	6,638	3.0%	9.0%	26.0%	29.2%
China	790	9.0%	35.0%	3.8%	3.2%
India	716	18.0%	49.0%	10.3%	13.5%
Indonesia	1,079	13.0%	34.0%	16.2%	25.0%
Mexico	4,436	3.0%	13.0%	5.9%	6.6%
Russia	6,301	4.0%	6.7%	5.9%	6.2%
Turkey	6,855	8.0%	19.7%	11.0%	11.7%

- Leading exporter of many labour intensive products: macadamias, citrus, table grapes, wool, avocados
- **Becoming more export focused**
 - Despite a smaller share of GDP, SA agriculture exports are larger than China, Mexico and Russia
 - Africa is becoming increasingly important market as retailers drag producers along

Source: World Development Indicators (2014). Export data from the WTO's International Trade Statistics (2014).

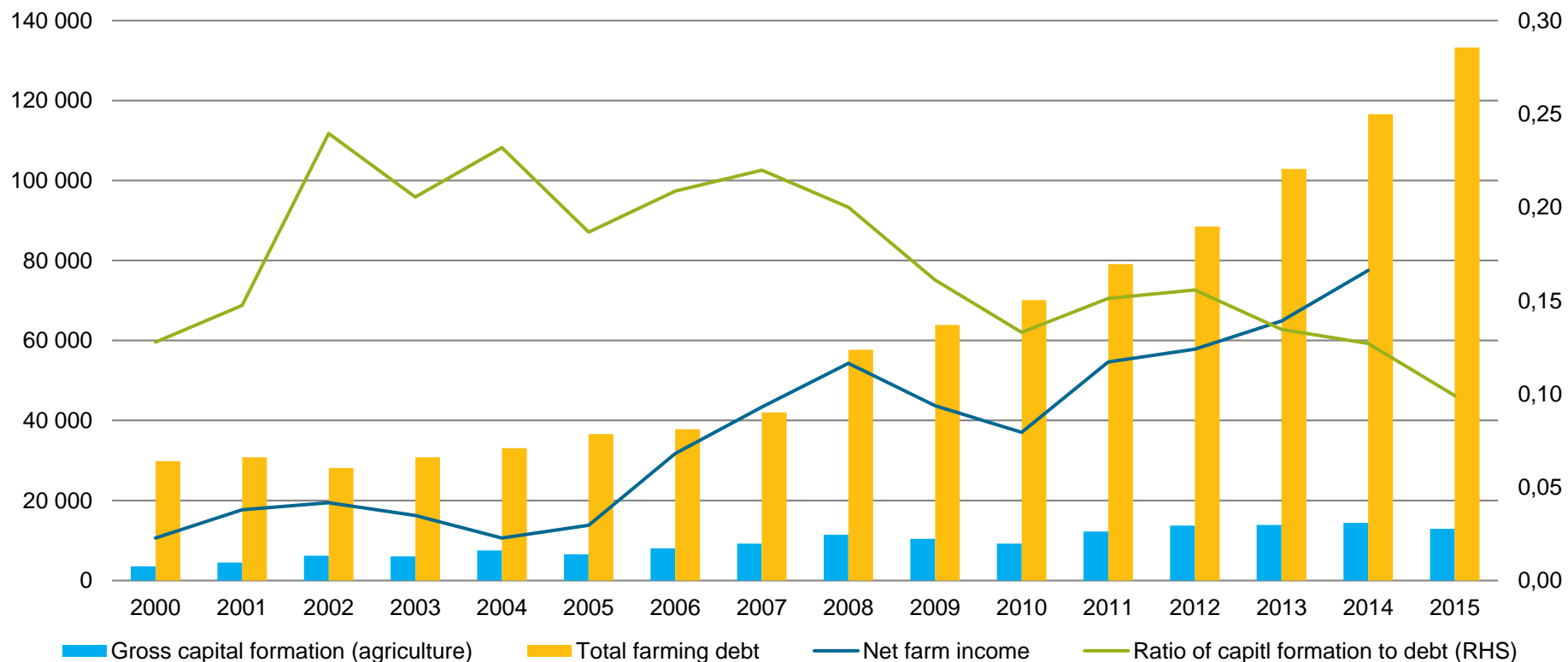
Rapid Rise in Value of Agriculture Exports (High-value Products)



- **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.

Profitability is Improving but Farmers are not Investing

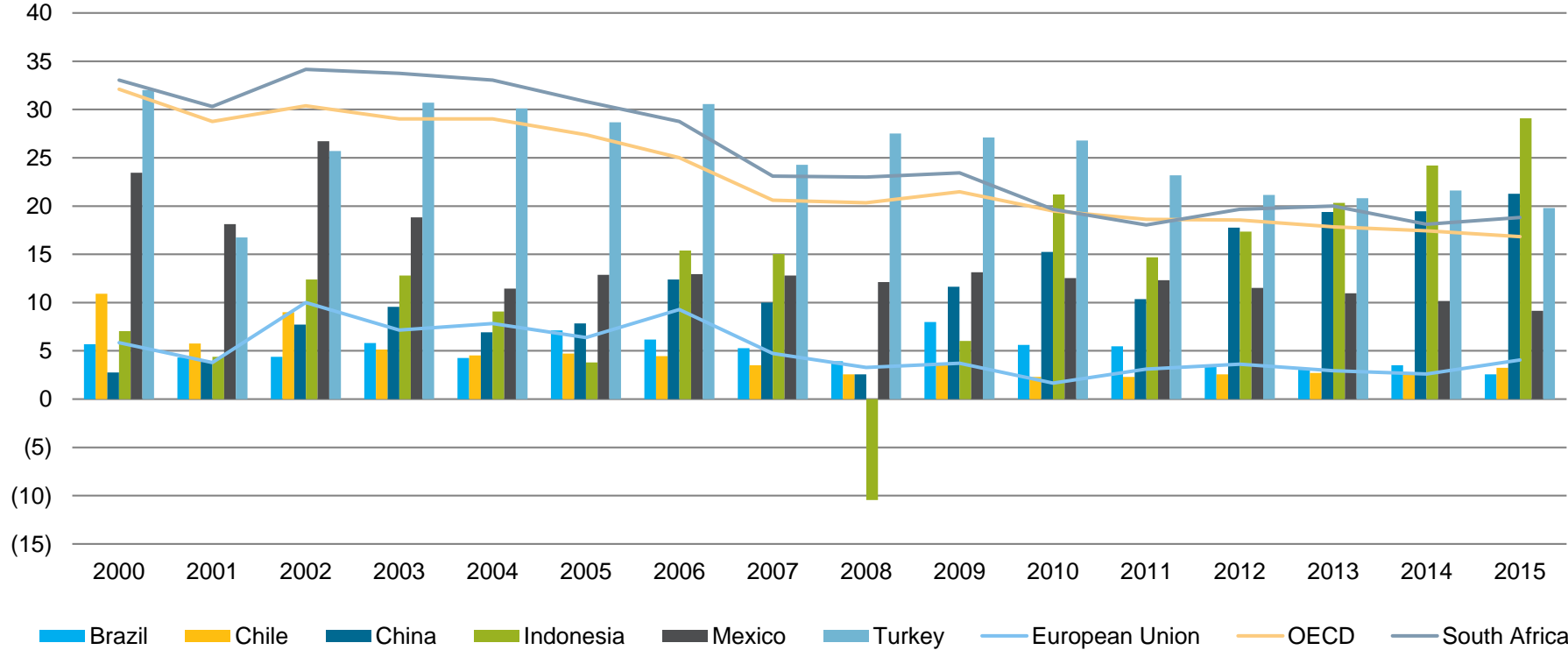


- Ratio of investment to debt has steadily declined since 2007
- From 2004 to 2013, investment in the sector by 5.9% compared to 19.8% and 11.9% for net farm income and total farming debt respectively

Source: Statistics South Africa (2015).

Export Gains Despite the Fact that SA Farmers are among the Least Supported in the World

Producer Support Estimate as a % of gross farm income

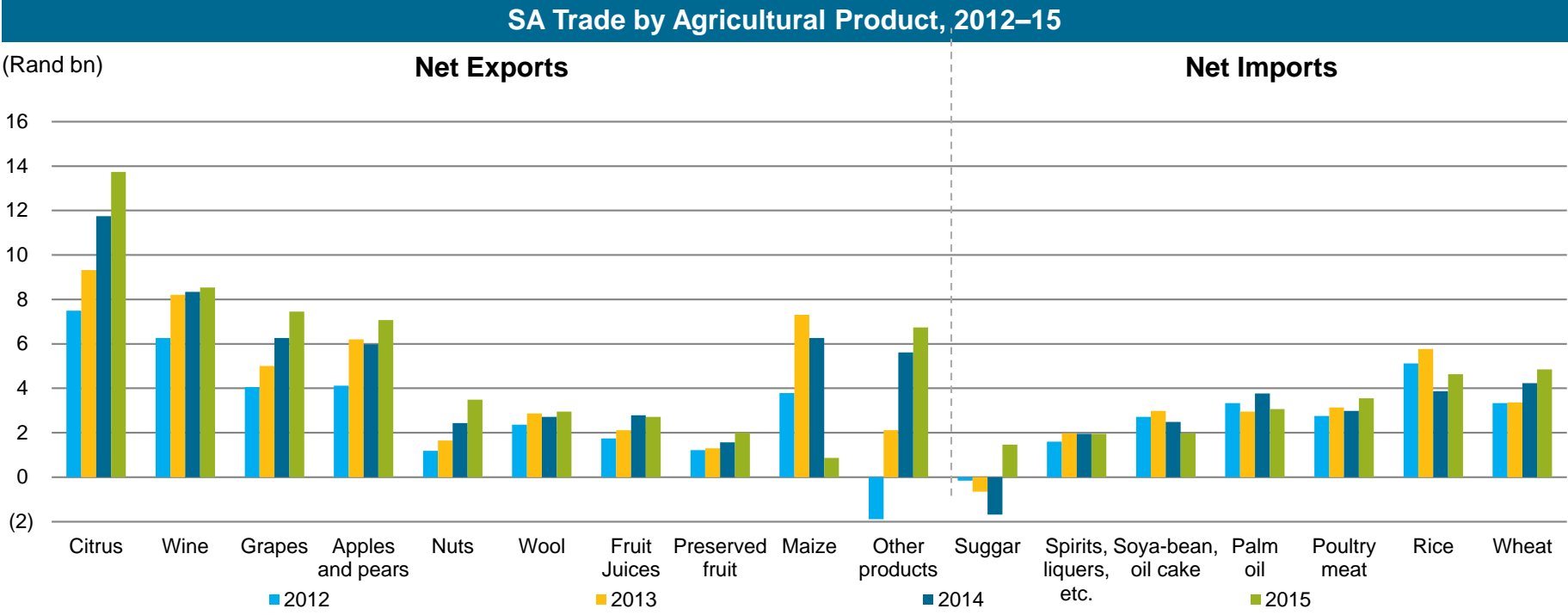


- Subsidies to farmers in Indonesia, China, Turkey and Mexico are significantly higher
- For OECD countries as a whole, support has roughly halved in intensity over the past 30 years
- However, average support levels in the emerging economies have increased from very low/even negative levels to approach the OECD average
- SA has not taken up all the potential policy space that exists to support the agricultural sector

Source: OECD (2016).

Which Crops Can Maximise The Opportunities Offered By Growth in Agriculture?

Substantial Growth in High Value Fruit Exports that are Labour Intensive



- **Key crops** include: apples, table grapes, citrus, wine, avocados, macadamia and pecan nuts and beef
- Export growth rates in some of these high-value commodities (including table grapes, raisins, avocados, mangos, apples and pears) have been **slower than those achieved in recent years by similar and competitor economies**
- As a consequence, **South Africa's share of world agricultural trade has been small and mostly stagnant since 1992**, well below the share it achieved in the 1970s and 1980s. While other emerging market peers' share of world agricultural exports increased over the period 2000 to 2014

Source: Quantec (2016).

What do Export and Labour Intensive Crops Need?

- **Trade promotion and market access**
 - To access export growth opportunities that maximises on-farm income
- **Water**
 - Apples, table grapes, citrus, wine, avocados, macadamia and pecan nuts are water intensive
- **Agricultural insurance**
 - To reduce risk and facilitate crop substitution
- If these are in place the **funding** will follow
 - Coordination of trade, water and insurance activities that focus on achievable actions with a clear scope of the opportunity that can be unlocked is key to success

Understanding the Scope of the Opportunity Presented by Agriculture

The Modelling Process

1. Selection of key labour-intensive export commodities
2. Understanding the key trade and market access interventions that will unlock growth
 - Inputs from: Industry, DAFF, BFAP
3. Evaluating water requirements and alignment with existing planning/strategies
 - Inputs from: industry (SWPN), DAFF, WRC, NT, BFAP
4. Link water strategy to key commodities
5. Translate trade and market access interventions into export tons and additional hectares
 - Inputs from: industry and BFAP
6. Model the impact of the additional export tons on GDP and employment

Key Trade Promotion and Market Access Interventions

Country	Interventions required	Commodities Targeted								Time Frame		
		Apples	Table Grapes	Citrus	Avocados	Macadamias	Pecans	Wine	Beef	Short 0-6 months	Medium 7-12 months	Long 1 year onwards
China	Revise SPS protocols (false codling moth)		✓	✓								
	Raise awareness of South African fruit and wine products	✓	✓	✓	✓	✓	✓	✓		■		
	Leverage BRICS to negotiate better market access	✓	✓	✓	✓	✓	✓	✓				■
India	Revise SPS protocols (incl. Fruit fly treatment for citrus)			✓						■		
	Clarity on labeling and post harvest chemical usage for all products	✓	✓	✓	✓	✓				■		
	Leverage BRICS to negotiate better market access	✓	✓	✓	✓	✓						■
Indonesia	Raise awareness of fruit (incl. country of recognition status)	✓	✓	✓	✓	✓	✓			■		
	Resolve non issuing of permits (citrus)			✓						■		
	Negotiate improved market access	✓	✓			✓						■
USA	Resolve market access under AGOA (incl. Cold treatment for citrus)			✓	✓				✓		■	
	Review veterinary protocol								✓		■	
	Review border control procedures regularly								✓			■
	Negotiate improved market access						✓			■		
South Korea	Negotiate improved market access		✓		✓						■	
Japan	Revise cold treatment for citrus			✓							■	
	Negotiate improved market access		✓	✓	✓			✓				■
	Raise awareness of South African fruit and wine products	✓	✓	✓	✓	✓	✓	✓		■		
Thailand	Negotiate improved market access	✓			✓						■	
EU	Resolve citrus blackspot issue			✓						■		
	Implement new minimum residue level requirements	✓	✓	✓	✓	✓	✓				■	
Russia	Clarify labeling requirements	✓	✓	✓	✓	✓	✓			■		
	Improve access to credit assurance	✓	✓	✓	✓	✓	✓			■		
Africa	Raise awareness of South African fruit and wine products							✓		■		
	Negotiate improved market access (Angola, Nigeria, Ghana, Tanzania, Kenya and Uganda)							✓				■

Source: Workstream Analysis.

Trade Key Messages

Key Messages and Interventions Required

- Interventions required (estimated cost: negligible)
 - **Short-term:**
 - ◆ Implement required sanitary and phytosanitary standards and veterinary protocols
 - ◆ Raise awareness of SA products in key export markets
 - **Medium- to long-term:**
 - ◆ Negotiate improved market access with key trading partners

Leverage Public-Private Partnerships to Improve Market Access

- Even where and or when trade agreements are in place exports of agricultural products can occur only if:
 - Destination markets accept SA's plant and animal health standards and SPS protocols
 - Exporters receive the necessary export documentation and licensing timely [timeously] and accurately
- Some examples of how **partnerships with the private sector** have been used to resolve these issues
 - DAFF collaborated with SA wine industry to create www.dawineonline.co.za: an online system that issues export and import certificates for wine industry and coordinates sample analysis
 - Avocado company executives in the US and SA established the US–SA Avocado Committee to work with the USDA to obtain approvals for importing Hass avocados from SA into the US
 - DAFF has appointed meat experts to assist in completing market access questionnaires
- Examples of current issues facing exporters include:
 - SA veterinary protocols not accepted by US – SA cannot take advantage of AGOA meat access
 - Average turnaround time of 7 days for fish/seafood export permit
 - SA's foot-and-mouth free status severely threatened due to poor border control
 - SA's pest protocols (e.g. for false codding moth) not accepted in India and China
- Government departments to collaborate with the private sector to:
 - Set up **automated licensing system for key export** documentation
 - Review border control **procedures**, plant and animal health **standards**, SPS and veterinary **protocols** to ensure correct protocols are followed, updated procedures are implemented and procedures are audited on a regular basis

Improving Market Access through New or Re-negotiated Trade Agreements

- Trade agreements are critical to ensure exporters have competitive access to growing markets
 - E.g. under the recently signed EPA between the EU and SACU, South Africa's duty-free quota of wine that can be exported to the EU increased from 48 to 110 million litres
 - Under the AGOA extension to 2025, SA will now have better market access to the US for several key products (including lamb, ostrich and beef, apples, citrus, avocados and mangoes)
- However, in many growing markets we have less preferential trade access than competitors (see next slide for more detail)
 - E.g. for macadamia nuts, SA pays 19% import tariff in China whereas Australia (our largest competitor) has an FTA which will reduce tariffs to 0% over the next 3 years
 - Japan: SA only has access with one table grape variety
- **New and re-negotiated trade agreements are required** for key export products
- Must be supported by market and sector specific assistance to exporters that is related to the requirements to succeed in destination markets. For example:
 - Agriculture exports rely heavily on awareness of their "products" in destination markets and these have proven to be successful
 - The SA wine and brandy industry has Project Khulisa which leads a coordinated and targeted approach to specific export markets on behalf of member producers
 - The fruit and nut industry have a trade working group within the Fruit Industry Value Chain Round Table which coordinates and resolves issues related to market access and export protocols on behalf of fruit exporters

Why New or Re-negotiated Trade Agreements Matter: Evidence from the Fruit Sector

Market	Product	Imports (000 US\$)	South Africa		Peru		Chile	
			Tariff (%)	Exports (000 US\$)	Tariff (%)	Exports (000 US\$)	Tariff (%)	Exports (000 US\$)
China	Grapes	603,197	13%	5,342	0	85,035	0	171,362
	Plums	51,902	10%	45			0	22,650
	Avocado	11,956	25%	0			0	74
Thailand	Grapes	114,948	43%	0	0	29,720	–	–
Japan	Grapes	51,715	17%	0			8.5%	25,017
South Korea	Grapes	189,512	45%	0			0	126,654

Source: Workstream Analysis.

Where will the Water for Irrigation Expansion Come from in Future?

- South Africa is a water scarce country and water has to come from various sources (estimated below):
 - **15%** from improved water use efficiency (improved irrigation scheduling and application systems)
 - **15%** through water demand management (e.g. water efficient crop selection, shade netting, etc.)
 - **10%** through improved water administration (dam operating rules and Water Admin System/WAS)
 - **35%** from water loss reduction (infrastructure refurbishment, repairs and maintenance)
 - **10%** from re-use of water (e.g. use treated domestic wastewater return flows for irrigation)
 - **15%** from new water infrastructure development

Merging Trade and Water Potential

Short Term Opportunities								
	Hectare Expansion							Total
	Apples	Table Grapes	White Wine	Citrus	Avocados	Macademias	Pecans	
WAS savings	3,000			9,000	3,000	4,700	7,300	27,000
Brandvlei		1,000	500	2,000				3,500
ClanWilliam		1,000	500	2,500				4,000
Total expansion	3,000	2,000	1,000	13,500	3,000	4,700	7,300	34,500

- This assumes that WAS savings are allocated to farmers
- Several other water-related issues have to be resolved to improve overall investment environment
 - Improvement in security of water-use rights
 - Affordability of water pricing for emerging farmers (cost-recovery of investments?)
 - Long-term water availability and overall planning
 - Improvements in on-farm water-use efficiency (role of extension officers)
 - Transparency in water licensing regime

Source: Workstream Analysis.

Key Messages for Water

Short Term/Quick Wins

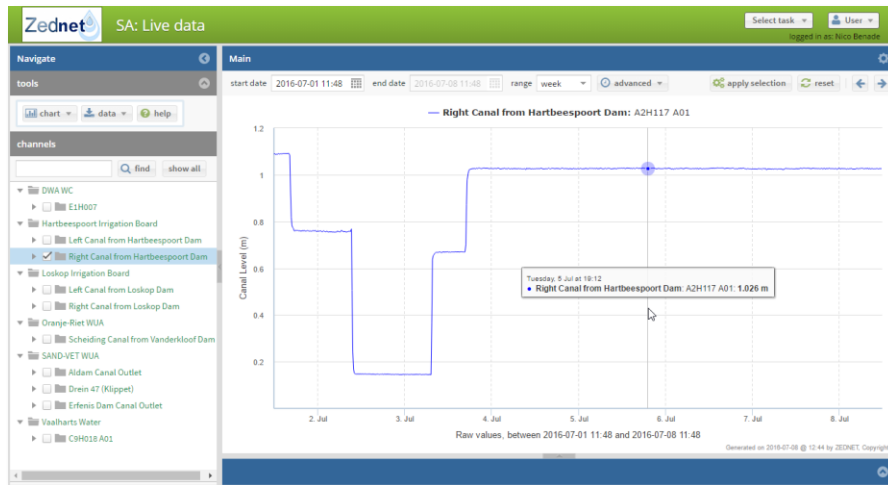
Short-term/quick-win actions: (estimated R20m):

- Improved water distribution efficiency through the use of Water Administration Systems (estimated R2m)
- Rapid water resource development opportunities (Brandvlei; estimated R15m)
- Further potential quick turn around of idle irrigation schemes: Ponglapoort and Boshielo
- Improved dam operating rules to ensure water security for all strategic use (including permanent crops)
- Strategic re-allocation of unused water reserves, where possible
- Extension programme to improve on-farm water use efficiency (efficient water application systems and better water scheduling) (estimated R3m)
- Public-Private-Partnerships to revitalise unproductive irrigation schemes that offer an immediate market opportunity (see priority crops and crop areas identified)

Medium Term

- Priority refurbishment, repair and maintenance of canal distribution systems (est. R1.5bn)
- Upgrading of existing schemes already approved budget (Clanwilliam main canal R0.9bn; Tzaneen dam raising R0.8bn)
- Fully integrated value-chain analysis per scheme for ROI on infrastructure, cost-benefit, socio-economic analysis

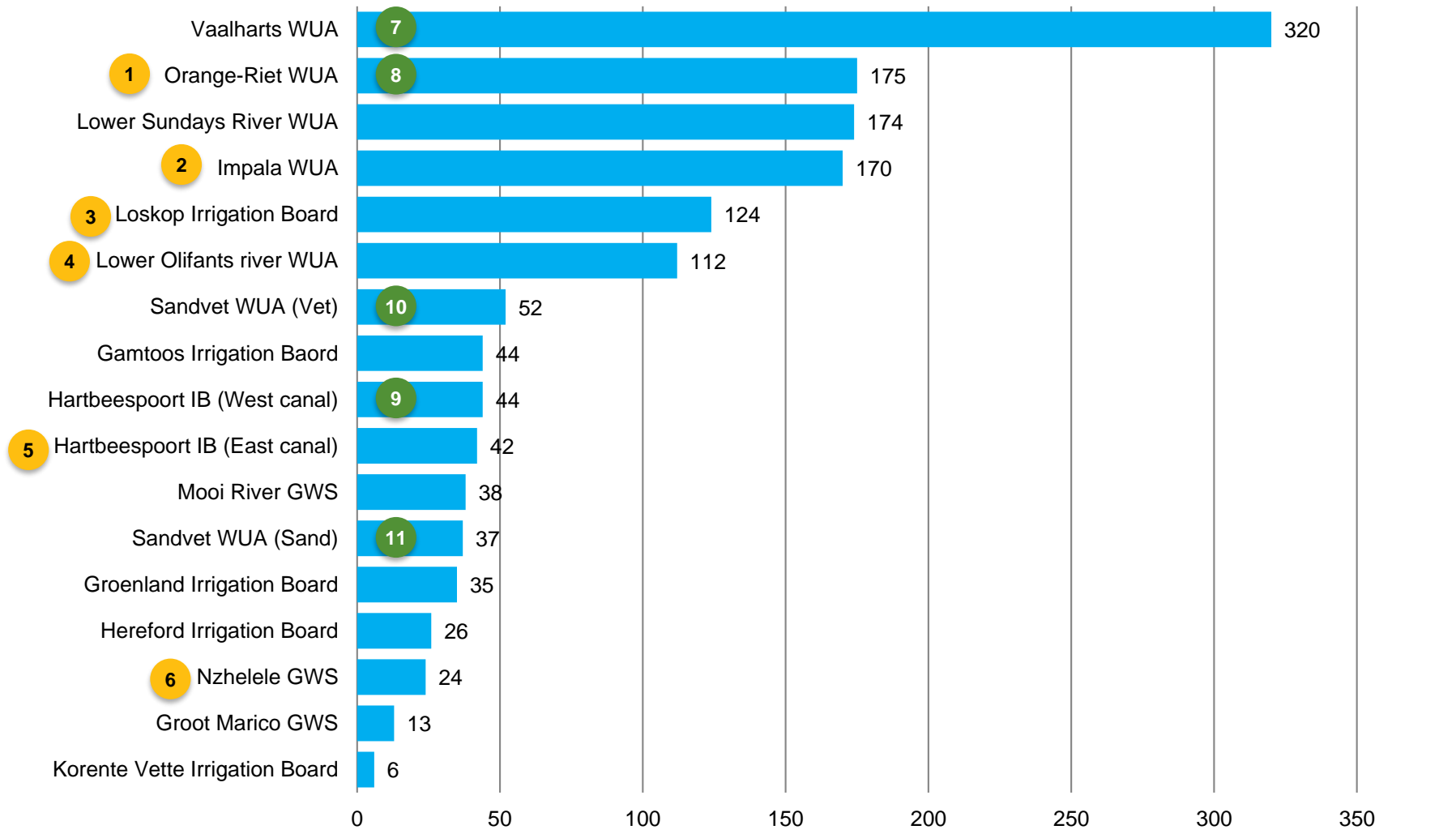
How does the Water Release Module of the Water Administration System (WAS) work?



Source: Strategic Water Partnership Network.

Implementation of Phase 1 of the Water Release Module of the Water Administration System (WAS)

Full Quota Allocations (M m3)

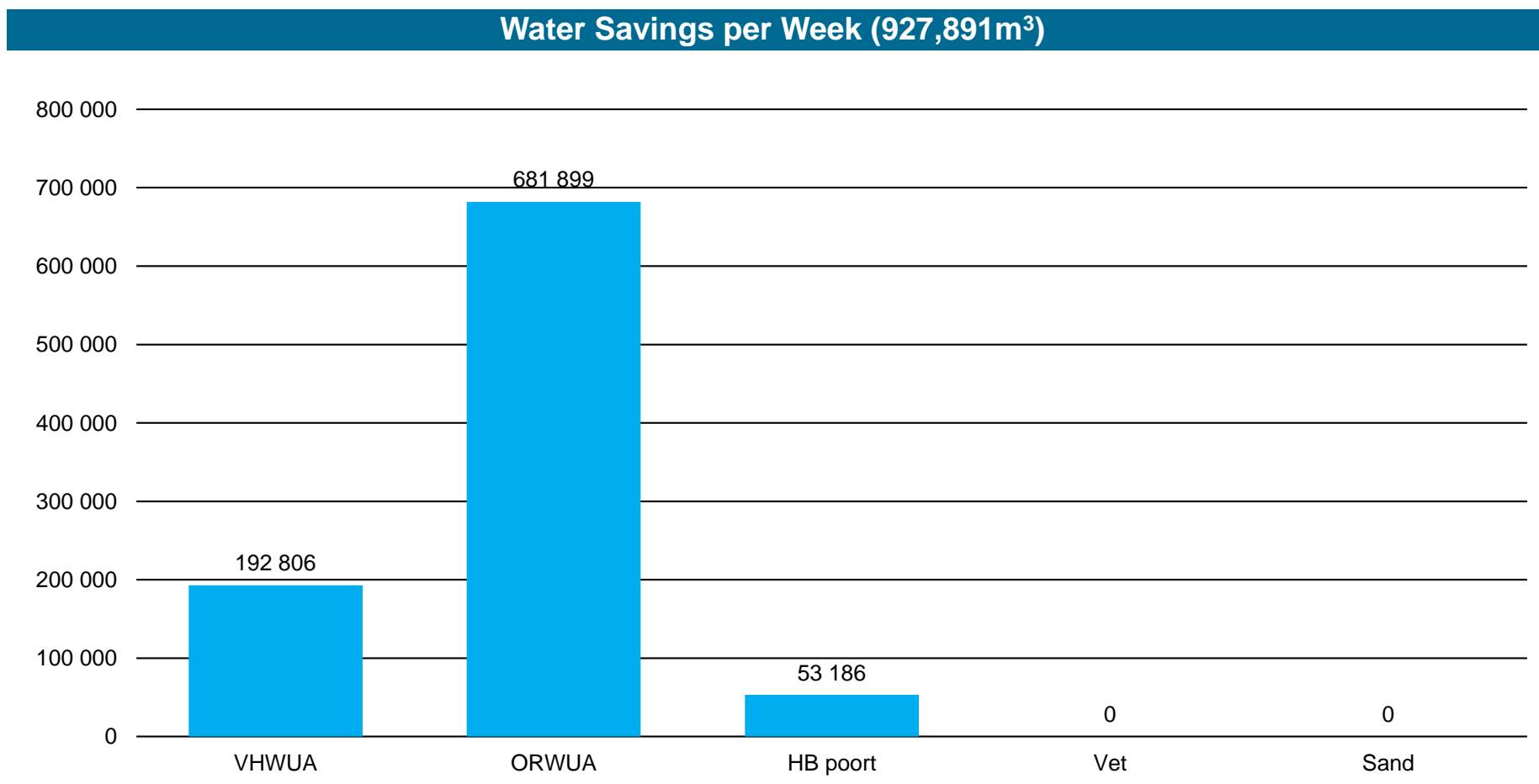


● Phase 1 ● Phase 2

Source: Strategic Water Partnership Network.

Results of Phase 1 of WAS: Water Savings of 927,891 m³ per Week

With a full quota 7700 m³/ha you can irrigate an additional 464 ha per month



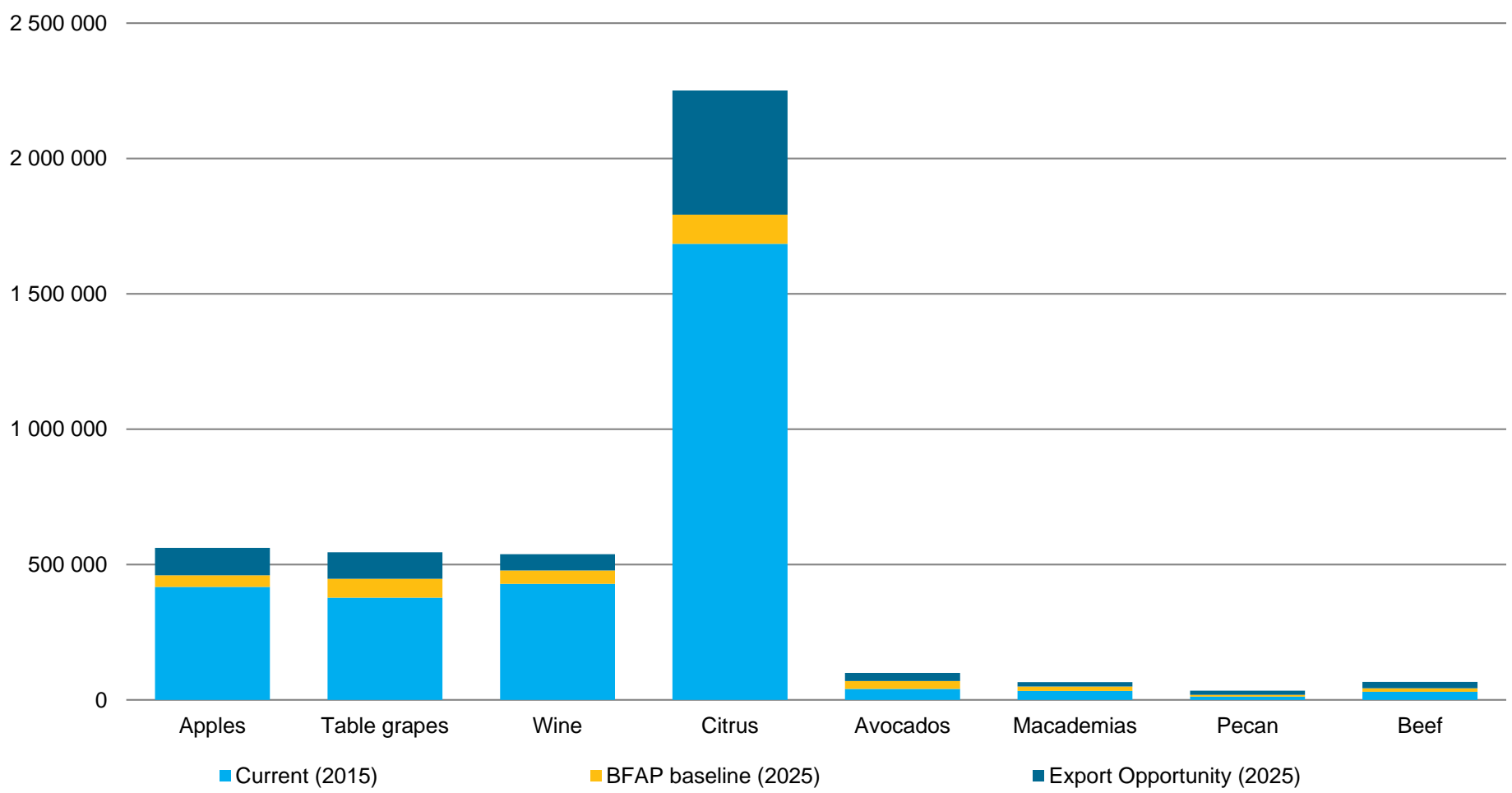
Source: Strategic Water Partnership Network.

Potential Impact of Trade and Water Interventions – Additional R6bn in Export Revenue

	Apples	Table Grapes	Total Wine	Citrus	Avocados	Macademias	Pecans	Beef	Total
Current (2015)									
Hectares	23,625	24,309	98,597	64,581	15,388	17,821	17,000	n.a.	261,321
Export tons	413,292	369,413	423,544	1,680,935	48,798	35,276	10,678	27,050	3,008,986
Export price (R/ton-nominal)	10,593	19,528	17,178	7,860	15,546	88,345	61,820	50,428	271,298
Total Value	R 4,378,002,156	R 7,213,897,064	R 7,275,639,365	R 13,212,149,100	R 758,613,708	R 3,116,458,220	R 660,113,960	R 1,364,077,400	37,978,950,973
BFAP Baseline (2025)									
Hectares	24,795	27,500	93,902	69,525	18,500	22,300	26,500	n.a.	283,022
Export tons	458,705	440,000	478,132	1,793,745	66,600	43,931	15,900	40,641	3,337,654
Export price (R/ton-nominal)	10,593	19,528	17,178	7,860	15,546	88,345	61,820	50,428	271,298
Total Value	R 4,859,062,065	R 8,592,320,000	R 8,213,350,989	R 14,098,835,700	R 1,035,363,600	R 3,881,084,195	R 982,938,000	R 2,049,444,348	43,712,398,897
Scope of the opportunity (2025)									
Potential expansion above base line (ha)	3,000	2,000	1,000	13,500	3,000	4,700	7,300	n.a.	34,500
Hectares	27,795	29,500	94,902	83,025	21,500	27,000	33,800	n.a.	317,522
Export tons	514,210	472,000	483,224	2,142,045	77,400	53,190	20,280	55,000	3,817,349
Export price in 2015 (R/ton-nominal)	10,593	19,528	17,178	7,860	15,546	88,345	61,820	50,428	271,298
Total Value	R 5,447,026,530	R 9,217,216,000	R 8,300,818,253	R 16,836,473,700	R 1,203,260,400	R 4,699,070,550	R 1,253,709,600	R 2,773,540,000	49,731,115,033
								Add Revenue	6,018,716,136

Source: Workstream Analysis.

Potential Impact of Trade and Water Interventions – Additional R6bn in Export Revenue (Cont'd)



Source: Workstream Analysis.

Additional Exports of R6bn Will Add 0.25% to Our GDP Growth Rate

Sectors	Original GVA (Rmm)	Type I multiplier			Type II multiplier		
		Change in GVA (Rmm)	Percentage change	Percentage point contribution	Change in GVA (Rmm)	Percentage change	Percentage point contribution
Agriculture	70,071.00	2,046.66	2.92	0.07	2,158.29	3.08	0.07
Mining	271,000.00	150.46	0.06	0.01	234.97	0.09	0.01
Manufacturing	376,012.52	344.81	0.09	0.01	765.76	0.20	0.03
Electricity	105,773.41	107.38	0.10	0.00	251.60	0.24	0.01
Construction	92,182.60	26.85	0.03	0.00	58.12	0.06	0.00
Trade services	354,596.50	577.75	0.16	0.02	975.90	0.28	0.03
Transport services	268,716.75	405.19	0.15	0.01	707.11	0.26	0.02
Business services	579,914.28	452.66	0.08	0.02	1,256.48	0.22	0.04
Social services	821,373.32	343.39	0.04	0.01	822.58	0.10	0.03
Total	2,939,640.39	4,455.17	0.15	0.15	7,230.81	0.25	0.25

Source: Workstream Analysis.

Additional Exports of R6bn Will Add 45,000 Jobs

Sectors	Original employment	Type I multiplier			Type II multiplier		
		Change in employment	Percentage change	Percentage point contribution	Change in employment	Percentage change	Percentage point contribution
Agriculture	654,744.86	19,124.08	2.92	0.14	20,167.07	3.08	0.15
Mining	350,023.61	187.93	0.05	0.00	289.58	0.08	0.00
Manufacturing	1,712,690.85	1,370.00	0.08	0.01	3,300.40	0.19	0.02
Electricity	98,080.23	100.17	0.10	0.00	234.31	0.24	0.00
Construction	1,026,215.73	298.89	0.03	0.00	646.99	0.06	0.00
Trade services	2,976,327.08	4,423.66	0.15	0.03	7,862.01	0.26	0.06
Transport services	805,976.57	1,329.41	0.16	0.01	2,254.78	0.28	0.02
Business services	1,773,291.41	1,315.70	0.07	0.01	3,422.38	0.19	0.03
Social services	4,118,223.92	2,293.88	0.06	0.02	6,815.17	0.17	0.05
Total	13,515,574.25	30,443.71	0.23	0.23	44,992.69	0.33	0.33

Source: Workstream Analysis.

2

Financing and Drought

Presented by:

Omri Van Zyl – AgriSA

Gary Conway – Land Bank

Problem Statement and Results of Analysis

Problem Statement

- Country experienced extreme drought conditions in 2015/16 still not having dissipated
- Eight provinces or parts thereof are still declared disaster areas
- Grazing deteriorated and bleak picture is still prevalent for winter season
- Summer grain production decreased significantly
- Some commercial and emerging farmers face a serious financial predicament
- There is no clarity on government supported disaster measures
- Agricultural employment at risk and employee specific support required

Results of qualitative analysis done by Agri SA

- 88% of respondents indicated drought conditions worse than normal
- 94% of respondents reported worse than normal production of commodities
- 73% pointed out “bad” grazing conditions
- 56% referred to the limited/bad availability of fodder
- 50% reported significant rainfall during the last couple of months
- 86% is expecting worse than normal grazing conditions during winter

Proposal/Solutions (Commercial and Emerging Sectors)

Proposal/Solutions

State guarantee scheme aimed at outstanding debt

Interest rate subsidy on carryover debt

Farm worker support subsidy

Interest rate subsidy on new production credit

Soft loans aimed at herd rebuilding

Emergency measures with regards to water and food relief

Budgetary Implications

Summary Overall		
#	Item	Budgetary Implication for State (Rand)
1	Summer and winter grain and livestock industries	R298,241,007
2	Sugar industry	R214,961,638
3	State guarantee for farmers	(R1bn)
Total cash required (Y1 – 4)		R513,202,645

Source: [TBC].

Budgetary Implications (Cont'd)

Summer grain, Winter grain and Livestock industry

Budgetary Implication for State		Assumptions
(Rand)		
1	Subsidising feed, fodder and water Verification needed	1. This calculation needs further verification after consultation with provinces
2	Support towards retention of farmworkers 120,000,000	2. Assume 20,000 full time employees at R1 000/month for 6 months
3	Interest subsidy on production credit 88,182,207	3. Assume commercial farmers with carry-over debt will only partially receive production credit if not supported in terms of interest rate on new loans in 2016/17. Production credit per farmer amounted to R1,711,949 (R26,218,500,000/15,315) in 2015/16 and with inflation will rise to approximately R1,797,547 (R1,711,949 x 1.05) in 2016/17. Approximately 1,255 farmers were indicated to be in such a position. Assuming that three percentage points interest subsidy will place them in a position to take up the full complement of production credit the following subsidy, will be required (R1,797,547 x 1,255 x 0.03) = R67,677,627 in 2016/17
4	Interest subsidy on carry-over debt 18,763,800	Using the same methodology emerging farmers will require = R555,814 (R239,000,000/430) in 2015/16 and with inflation will rise to approximately R583,605 (R555,814 x 1.05) in 2016/17. Approximately 96 farmers were indicated to be in such a position. Assuming that three percentage points interest subsidy will place them in a position to take up the full complement of production credit the following subsidy, will be required (R583,605 x 96 x 0.03) = R1,680,782 in 2016/17
5	Interest subsidy on unpayable term and bond debt 26,295,000	Approximately 339 commercial farmers will not qualify for production loans at all. Using previous methodology these farmers will require production credit support of R18,281,047 (339 x R1,711,949 x 1.05 x 0.03). These farmers will probably require additional support on carry-over debt and bond debt
6	Interest on loans for herd rebuilding 45,000,000	Approximately 31 emerging farmers will not qualify for production loans at all. Using previous methodology these farmers will require production credit support of R542,752 (31 x R555,814 x 1.05 x 0.03). These farmers will probably require additional support on carry-over debt and bond debt
Total	298,241,007.00	Total = R67,677,627 + R1,680,781 + R18,281,047 + R542,752 = R88,182,207
		4. Assume an interest rate subsidy of three percentage points on carry-over debts with respect to farmers not qualifying for production credit
		Commercial (R618,000,000 x 0.03) = R18,540,000
		Emerging (R7,460,000mn x 0.03) = R223,800
		Total R18,763,800
		5. Assume an interest rate subsidy of 3 percentage points on unpayable term and bond debt = (0.03 x R876,500,000mn) = R26,295,000mn
		6. Assume R500,000,000 to be subsidised by 3 percentage points of interest rate for 3 years = R500,000,000 x 0.03 x 3 = R45,000,000 in 2016/17

Note: During consultations with Grain SA, it became clear that access to production credit by emerging farmers will be limited unless supported by some form of government guarantee; an amount of R1bn was mentioned as needed for this purpose. This amount is obviously not included in the figures mentioned.

Budgetary Implications (Cont'd)

Sugar industry

Budgetary Implication for State		Assumptions	
(Rand)			
1	Support to towards retention of farmworkers	124,350,000.00	1. Assume one third of the labour force in the sugar industry (62,175) at R1,000/month for 6 months
2	Interest subsidy on production debt	21,631,500.00	2. Based on an interest subsidy of 3 percentage points on estimated carry over debt held by Coastal, Hinterland and Midlands growers
3	Interest subsidy on production loans	4,509,574.00	3. Assume that there is a 3% interest subsidy on production credit with respect to farmers (commercial and emerging) not qualifying for production credit
4	Interest subsidy on loans for replanting	64,470,564.00	4. Damage to sugar cane roots is widespread in the industry, this is over and above the normal 10% replant rate. This amount will be required for 4 years i.e. R16,117,641 per year
Total		214,961,638.00	

Note: During consultations with Grain SA, it became clear that access to production credit by emerging farmers will be limited unless supported by some form of government guarantee; an amount of R1bn was mentioned as needed for this purpose. This amount is obviously not included in the figures mentioned.

Actions and Accountability

Responsible Institutions

- **Government**
 - Disaster Management Centres
 - ◆ Department of Agriculture, Forestry and Fisheries & Treasury
- **Financial institutions**
 - Commercial banks, IDC, Landbank, Agricultural businesses
- **Surveys and information**
 - All with the support of Agbiz and Agri SA

Accountability

- DAFF provides funding to the Landbank as soon as possible
- Landbank coordinates relief efforts
- State guarantees via Treasury to commercial banks

Timelines

- Completion before end October 2016

3

Agriculture Growth Fund

Presented by:

Gary Conway – Land Bank

Thabi Nkosi and Mpumelo Maseko – PIC

Contents

- Summary of the proposed models, option 1 and 2
- Option 1 – Emerging Farmers model proposition problem Statement
 - Solutions
 - Funding
- Option 2 – Blended Equity / Debt model
- Conclusion

The Agricultural Funding Work Stream is Seeking to Develop and Deliver Meaningful Funding Solutions that Drive Growth Employment and Transformation

- While other sectors key to addressing the challenges of Youth Unemployment, Poverty and Rural Underdevelopment, are experiencing pressure and instability:
 - Agriculture holds the key to unlock:
 - ◆ Economic Growth and Employment Creation
 - ◆ Challenges of Youth Unemployment and Deprivation in Rural Areas
 - ◆ Transformation
 - ◆ Ownership patterns of Land across the country
- A blended equity / debt funding model is required to fund large transactions:
 - Combines loan and equity finance for large transactions with significant export potential

Summary of the two approaches

Option 1: Addressing Emerging Farmers

- Aimed **at emerging farmers** with some access to markets but no commercial funding solutions available
- Farmers tend to have challenges in respect of access to land, lack of equity and or security, inadequate technical services support, loan facilities not suitable for emerging markets, lack of capital and cash flow, no market access and inadequate insurance products and cover
- **Developmental issues, cost of capital and risk appetite** are some of the reasons commercial funding model struggle to address emerging farmer needs
- A **multifaceted approach** with **key stakeholders** (government, private sector, commercial funders, DFIs and Emerging Commercial Farmers) is therefore required for success
- Funding mechanism for transactions **less than R500m**
- **Interest loan subsidization** proposed
- Subsidy to **mitigate early stage operational and development risk** and increase motivation for **transformational efforts**

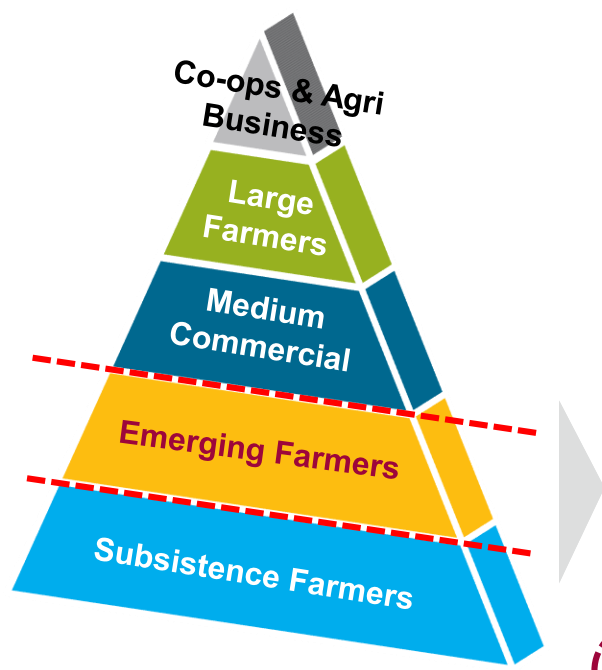
Option 2: Blended equity / loan product

- A blended debt / equity approach to unlock investment **greater than R500m**
- Many agricultural enterprises characterised by weak debt to equity ratios, thus restricting flow of debt financing into the sector, especially in capital-intensive operations . This calls for an increasing need for **equity participation** in this agricultural sector
- **Catalysing effects** of a blended equity to debt funding approach, in particular:
 - Enhance enterprise to debt to equity ratios
 - Project derisking contributions
 - Attract additional capital
- Injecting both debt and equity financing will unlock the potential of capital-constrained, **high-value and high impact projects** in identified sub-sectors. Funding mechanism through a **Transaction Review Committee (TRC)** proposed. Members to include Commercial Banks, Land Bank, PIC, DAFF and National Treasury
- Holistic approach to **promoting growth, employment and investment in agricultural sector**

Option 1: Emerging Farmers Model, transactions less than R500m

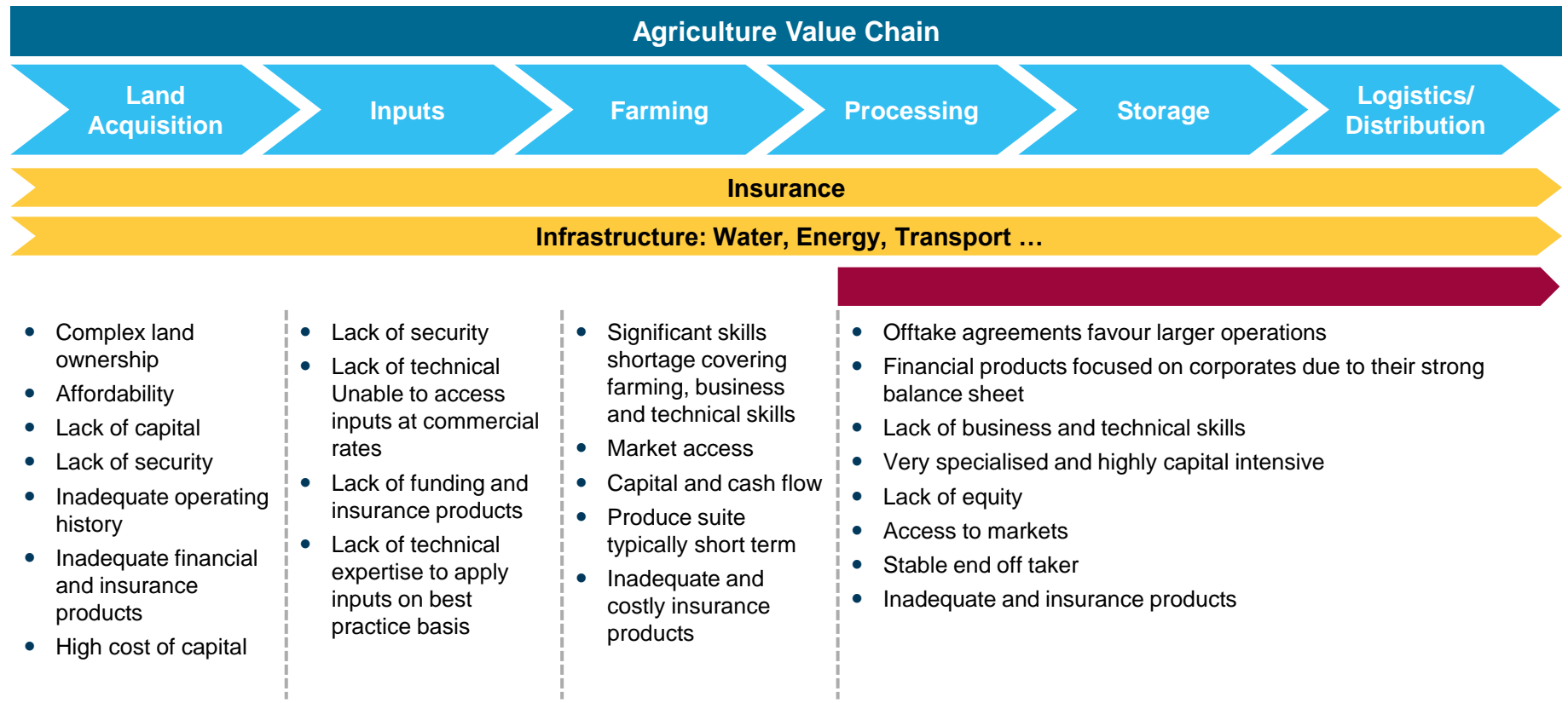
Model at Emerging Farmers

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...



Commercial Funding Model Struggles to Finance Emerging Farmers for a Number of Reasons...

Developmental issues	<ul style="list-style-type: none"> • Emerging Farmers/Black Industrialists have limited development track record • Limited access to commercial, legal and agri-specialists • Limited access to land and water rights • Difficulty in sourcing/ importing technology
Cost of Capital	<ul style="list-style-type: none"> • Commercial Bank's loan margins are based on the borrowers overall risk grade • Generally Emerging Farmers risk profile is such that the cost of borrowing makes it unaffordable to them
Risk Appetite	<ul style="list-style-type: none"> • Commercial Bank's struggle to finance Emerging Farmers due to: <ul style="list-style-type: none"> ▪ Lack of mandate ▪ Type of loan required (term) ▪ Lack of security (title over property) ▪ Lack of water rights ▪ Lack of operational track record

Emerging Farmers and Black Industrialists have not been able to gain a prominent foothold in the sector

Critical Success Factors

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

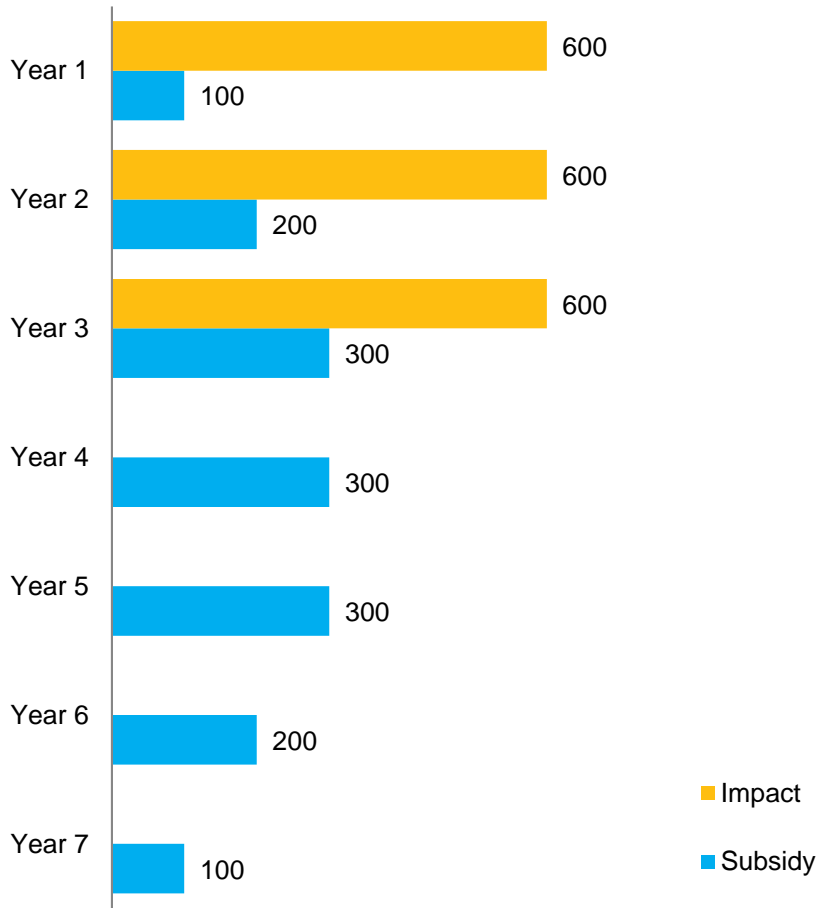
Government	<ul style="list-style-type: none"> • National Treasury • DAFF • DRDLR 	<ul style="list-style-type: none"> • Grant funding • Interest rate subsidisation
Private Sector	<ul style="list-style-type: none"> • Agri unions • Agri Corporates • Coops 	<ul style="list-style-type: none"> • Developmental 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"> • Black Farmer Associations • AFASA • NAFU • NAFSA 	<ul style="list-style-type: none"> • Identification of Emerging Farmers to participate in programmes

Additional Governmental Support is Required to Underpin the Success of Transformational Transactions

Products	Commercial Banks	Land Bank	Government Support Sought
Long Term Mortgage	<ul style="list-style-type: none"> Up to 15 years 2 yr capital grace period Full security over title 	<ul style="list-style-type: none"> Longer than >25 years >5 yr capital grace period Bullet repayment 	<ul style="list-style-type: none"> Subsidised interest rate – Prime – x% Capital Grants/Partial Capital Guarantee Grant funding applied to support loan facilities and provided with clear T&C's
Term Loan	<ul style="list-style-type: none"> Up to 5 years No grace period for capital repayment Leverage up to 60% Security over title 	<ul style="list-style-type: none"> Up to 10 years 3 year grace period for capital repayment Increased leverage levels [90%] Bullet repayment Security relief 	
Equity		<ul style="list-style-type: none"> Equity funding to fill funding gap requirements of Emerging Farmers Land Bank to “ware house” equity on behalf of black shareholders if required 	<ul style="list-style-type: none"> Partial Capital Guarantee to overcome limitations in collateral and/or balance sheets – up to 50% of security cover
Working Capital	<ul style="list-style-type: none"> Production loans, revolving credit 	<ul style="list-style-type: none"> Production loans, revolving credit 	<ul style="list-style-type: none"> Support from Government to fund cost of providing on farm technical assistance and support to EF's
Insurance	<ul style="list-style-type: none"> All loans to be protected by insurance cover 	<ul style="list-style-type: none"> All loans to be protected by insurance cover 	<ul style="list-style-type: none"> Affordable, cost effective products (refer Insurance Work stream)

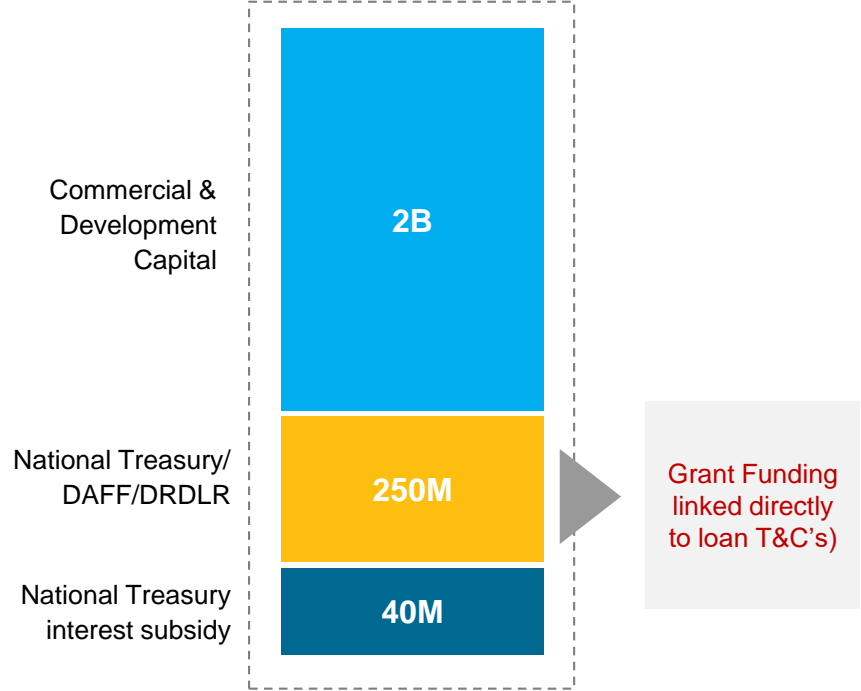
With Adequate Government Subsidy Support, the Impact of These Varied Funding Options will be Significant...

Subsidised Interest Multiplying Effect (R100m pa)



Illustrative Example

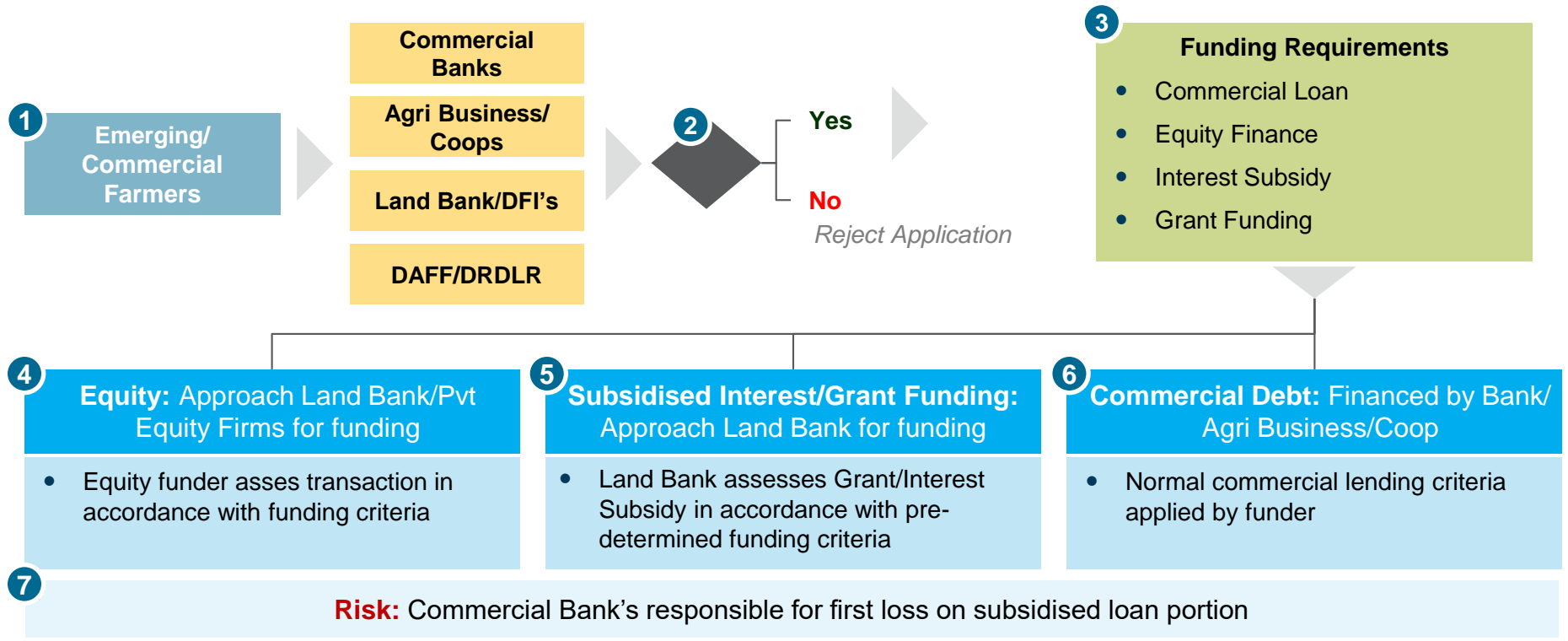
- Based on a subsidy of R40m per year for 5 years, R2bn can be used in year 1 to support emerging farmers and to drive transformation...



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

Funding Mechanism

Transactions <R500 million



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

Key Principles

Simplified, standardised approach	Grant Funding	Subs. Interest Funding
<ul style="list-style-type: none"> Pre approved allocation of capital [RM] budgeted for agreed time frame 	✓	✓
<ul style="list-style-type: none"> Grant/Subsidised Interest allocation to compromise [x%] of total funding provided 	✓	✓
<ul style="list-style-type: none"> Linked to Funding Terms & Conditions 	✓	✓
<ul style="list-style-type: none"> Administered by Land Bank 	✓	✓
<ul style="list-style-type: none"> Insurance a prerequisite for any grant 	✓	✓
<ul style="list-style-type: none"> Subsidy enjoyed by both Black and White Farmers effecting transformation (i.e. JV) 		✓
<ul style="list-style-type: none"> Shared security with commercial debt providers 		✓
<ul style="list-style-type: none"> Clear transformation/BEE guidelines 	✓	✓
<ul style="list-style-type: none"> Service Level Agreement place with stakeholders (NT, DAFF, DRDLR and Commercial Banks): Access/drawdown rules, turnaround times, monitoring programme – Extension services, reporting requirements, etc. 	✓	✓

Interest Loan Subsidisation: Mechanics

Subsidy benefits would mitigate early stage operational & development risk & increase motivation for intensified transformational efforts

Loan Size	<ul style="list-style-type: none"> Up to [x%] of total debt facility
Sculptured Cost Subsidy	<ul style="list-style-type: none"> Sub commercial interest rates [prime -] Level of subsidisation linked to level of transformation [BEE codes] Sculptured subsidisation profile – decreases over time i.e. <ul style="list-style-type: none"> Year 1: [60% subsidisation] Year 2: [50% subsidisation] Year 3: [40% subsidisation] Year 4: [30% subsidisation] Year 5: [20% subsidisation]
Maximum Term	<ul style="list-style-type: none"> Term of subsidy linked to funding product⁽¹⁾ <ul style="list-style-type: none"> [20 year facility = 5 year subsidy] [10 year facility = 3 year subsidy] [5 year facility = 2 year subsidy]
Transformation	<ul style="list-style-type: none"> Clear transformation Guidelines <ul style="list-style-type: none"> [Linked to Agri BEE Charter/NDP]

1. Dependant of commodity.

Interest Loan Subsidisation: Mechanics

Subsidy benefits would mitigate early stage operational & development risk & increase motivation for intensified transformational efforts

Capital Repayment Moratorium	<ul style="list-style-type: none">• No capital repayment for first [x] years
Security	<ul style="list-style-type: none">• Secured on a pari-passu basis with Commercial Debt
Insurance	<ul style="list-style-type: none">• Insurance coverage pre requisite for any subsidised facility
Support Service	<ul style="list-style-type: none">• Support /Extension services a pre requisite for any subsidised facility
Loan Administration	<ul style="list-style-type: none">• Facility managed by Land Bank
Service Level Agreement	<ul style="list-style-type: none">• SLA in place with stakeholders [NT, DAFF, DRDLR and Lenders] Access/drawdown rules Turnaround times Monitoring programme Reporting requirements, etc.

Option 2: Blended Equity / Debt model, transactions > R500m

Blended Debt and Equity Approach Needed to unlock Investment

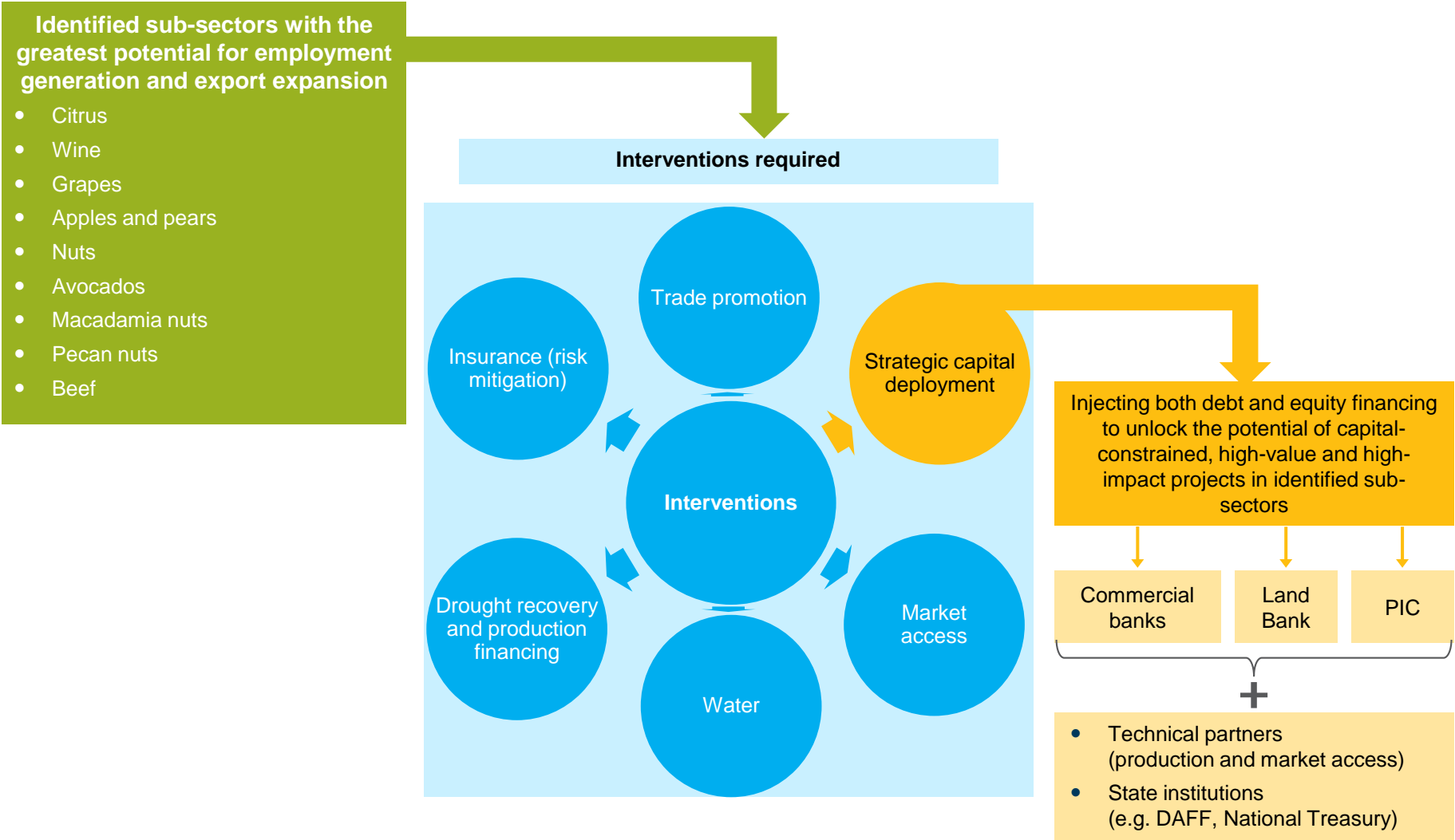
...blended debt and equity approach for investments greater R500m....

- Many agricultural enterprises are characterised by weak debt to equity ratios which have restricted the flow of debt financing into the sector.
- This particularly applies to capital-intensive operations such as those relating to some of the priority sub-sectors identified by the Workstream.

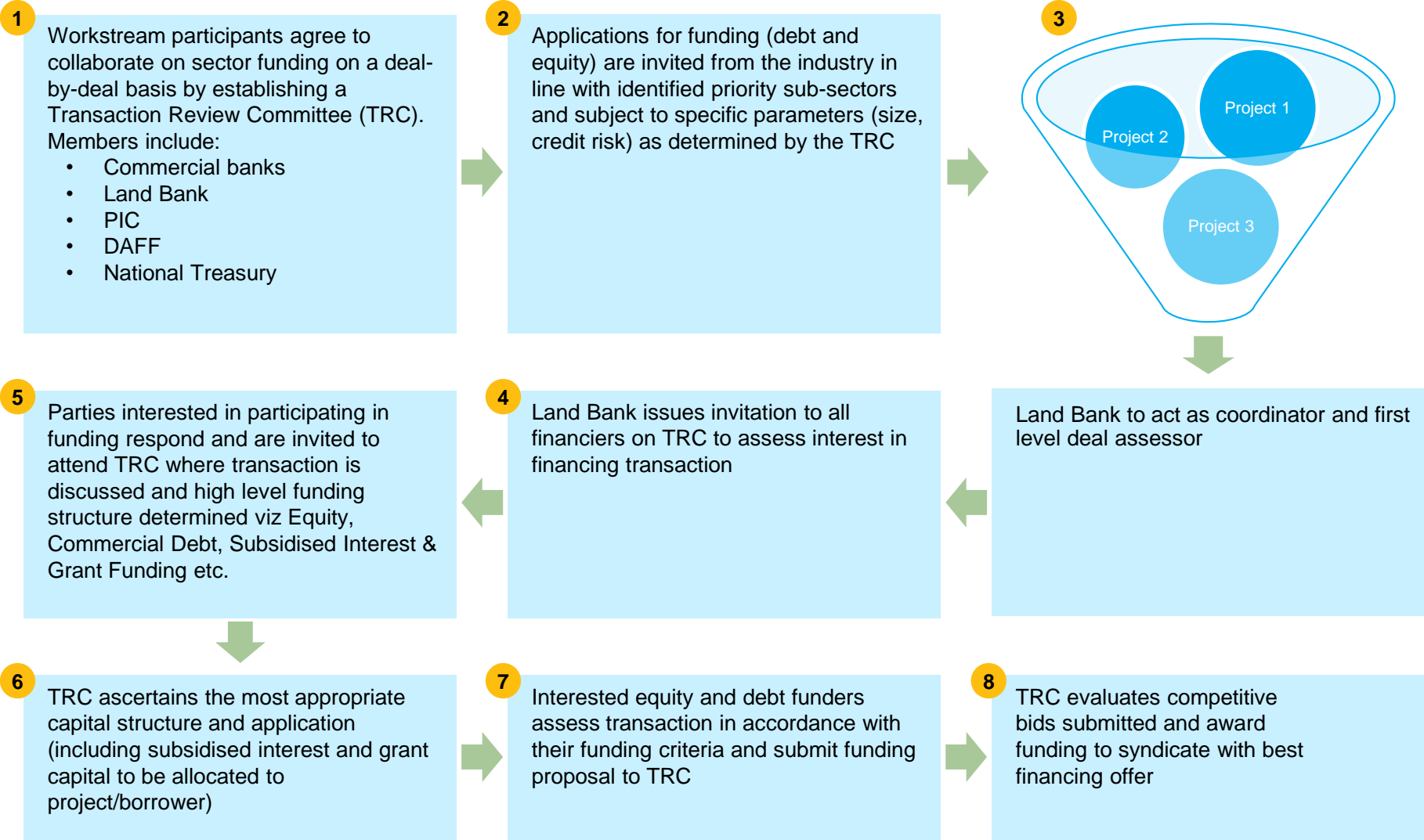
An increasing need for equity participation in the agricultural sector

- A blended debt and equity funding approach will have a catalytic effect on agricultural sector investment by
 - Enhancing enterprise debt to equity ratios
 - Contributing to project derisking
 - Attracting of additional capital

Holistic Approach to Promoting Growth, Employment and Investment in the Agricultural Sector



Funding mechanism (High value, high impact projects)



4

Insurance

Presented by:

Muzi Dladla – Land Bank

Contents

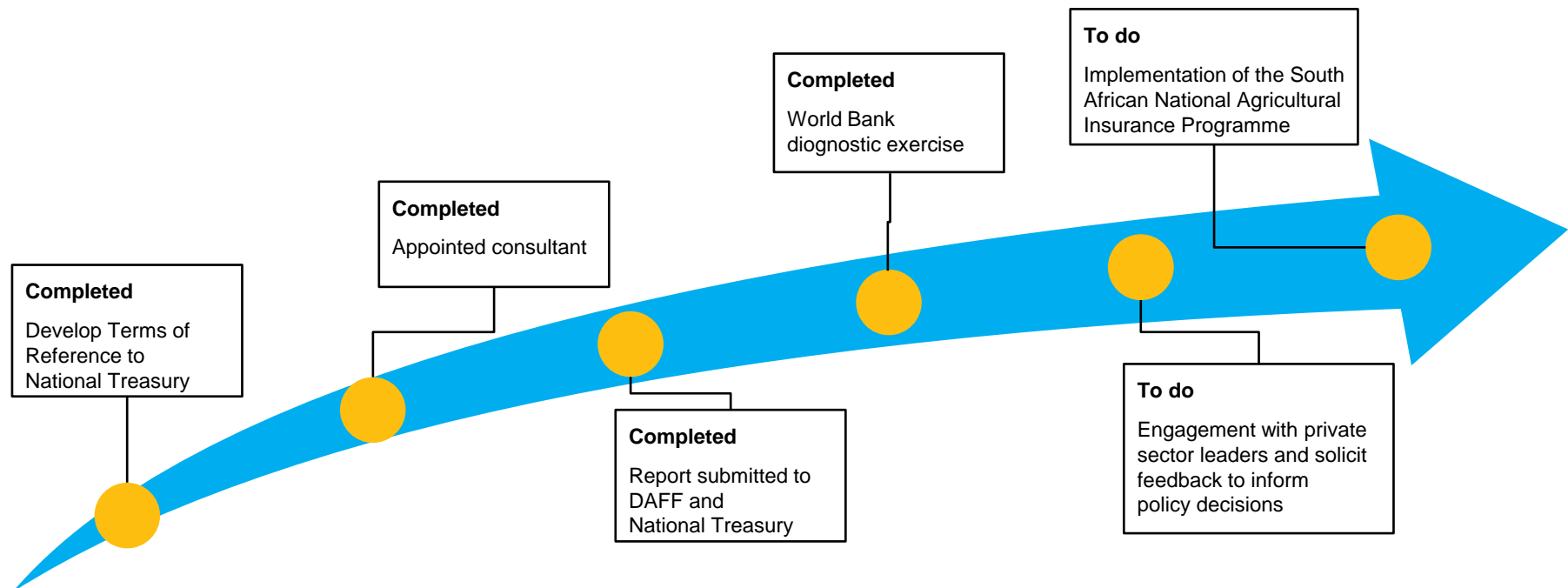
- Background
- Project Status
- High-level Summary of the World Bank Report
- Out of Scope Issues
- Policy Decision Considerations

Background to the Programme

Background to the Programme

- This report is prepared to provide the Agriculture Workstream members with a high-level abstract of the Public Private Partnership (PPP) initiative led by the National Treasury (NT) and supported by the Department of Agriculture Forestry and Fisheries (DAFF)
- The NT and DAFF requested the World Bank in January 2016 for technical assistance, through a trust fund, to conduct an initial diagnostic exercise on critical Issues that need to inform policy decision and the work that is required to design and implement an agricultural insurance/risk management programme for South Africa
- Furthermore, NT and DAFF expressed a critical need to explore a government intervention in the currently precarious market for multiple peril insurance products for commercial farmers, an appropriate product and intervention for smallholder farmers. Both these segments are critical to support the object of maintaining national food security

PPP Project Status



Note: Figure 1 – PPP project status (SAIA, July 2016)

High-Level Summary of The World Bank Report

High-Level Summary

- The World Bank report and analysis is based on industry-wide experience and not any one individual insurance company and the suggestions afforded in the document are to provide interventions at an industry level

South African Agricultural Production Insurance Market

The South African agricultural production insurance is categorised by the following risks:

- Systemic risk, which presents itself with extreme volatility. An example is “Drought”
- Idiosyncratic risk which presents itself with individual spread volatility and in recent years has been showing signs of uncertainty. An example is “Hail”

The market is oligopolistic with only three participating insurance companies.

- **Santam Limited**
- **Land Bank Insurance SOC Limited**
- **Mutual and Federal Insurance Company Limited**

These insurers retain a lower portion of the overall premium written and risk exposure, while the balance is ceded to Reinsurers of which majority are in foreign markets. The total average premium written over the past 11 years is approximately R180 million with a total exposure of approximately R3.6bn

The long-term average loss ratio over a period of 11 years, from 2004/5 – 2014/15 is a staggering 114% with a maximum of 397% (2006) and a minimum of 13% in 2004. This amongst other factors have seen a number of significant insurers and reinsurers exiting the market due to the inability to compete and maintain all critical success factors in this market.

Critical Success Factors

Industry Critical Success Factors

Qualifiers (License to play)

Agricultural and insurance expertise

Sound actuarial pricing

Global reinsurance support

Efficient and accurate loss Assessment procedures

To meet requirements

Order Winners (License to win)

Groundbreaking and market disruptive technology to enable efficiency and product development

Government support/intervention to stabilise the precarious market

A wide Scale distribution channel (an Inclusive agricultural stakeholder Value chain)

Insurance risk pooling

Note: Table 1 – Critical Success Factors (Land Bank, July 2016).

High-Level Summary of The World Bank Report (Cont'd)

High-Level Summary (Cont'd)

Challenges Faced by the Market

- The loss experience in this market has been so extreme and unstable that the reinsurers are threatening to pull out of the market unless the South African Government introduces a sustainable approach in dealing with catastrophic nature of this systemic risk
- No inclusive risk management mechanisms that are pro-active in nature to reduce reliance to disaster relief which is accompanied by delays associated with ex-post financing
- Commercial and Smallholder farming production is threatened and financiers find it increasingly difficult to disburse approved loans due to the diminishing capacity availability of crop insurance every season

Categorisation

The World Bank report categorises the South African farming community as follows:

<p>Commercial producers Approximately 40,000</p>	<p>Produce for commercial market Hold title to land Practice mostly rain fed with some irrigation</p>
<p>Smallholder/Semi-Commercial producers Approximately 250,000</p>	<p>Produce for commercial market and consume surplus Most do not hold title to land Practice fain-fed agriculture</p>
<p>Subsistence producers Approximately 1.5mm</p>	<p>Produce for consumption only Most operate in communal areas Practice rain-fed and backyard farming</p>

Note: Table 2 – Farmer Categorisation (World Bank, July 2016).

High-Level Summary Of The World Bank Report (Cont'd)

High-Level Summary (Cont'd)

High-Level Summary of the World Bank Report

- It is proposed that a centralised insurance pool that can be incorporated and mandated to insure crop and livestock insurance products for the only Commercial producers as well as Smallholder producers.
- **The proposed subsidies for the three categories of producers are as follows:**

Commercial Crop Producers

- A stop loss premium subsidy to the proposed pool is recommended for the Multi-Peril crop insurance, which is aimed to attach at a pre-determined level i.e 100%, 150% or 200% with an exhaustion point of 500% or a direct premium subsidy
- It is envisaged that if GoSA finances the cost of stop loss protection and/or a direct premium subsidy for catastrophe losses, the reduction in cost experience and direct subsidy, at the correct and actuarially determined premium rate, will result in a sustainable special risk insurance offering

Smallholder Crop Producers

- A direct premium subsidy is proposed for Area Yield Index Insurance for Smallholder crop farmers. It is a catastrophe loss of yield cover suited to protect against systemic risk like drought
- This product is best linked to credit to cover against drought leading to crop failure and the inevitable inability to repay the credit

Smallholder Livestock Producers

- A direct premium subsidy is proposed for Pasture Drought Index Insurance for Smallholder Livestock farmers. It estimates and measures forage availability through satellite data to determine pasture and grazing degradation
- This product is also best linked to credit to cover against drought leading to crop failure and the inevitable inability to repay the credit

Out of Scope Issues

Key Out of Scope Issues

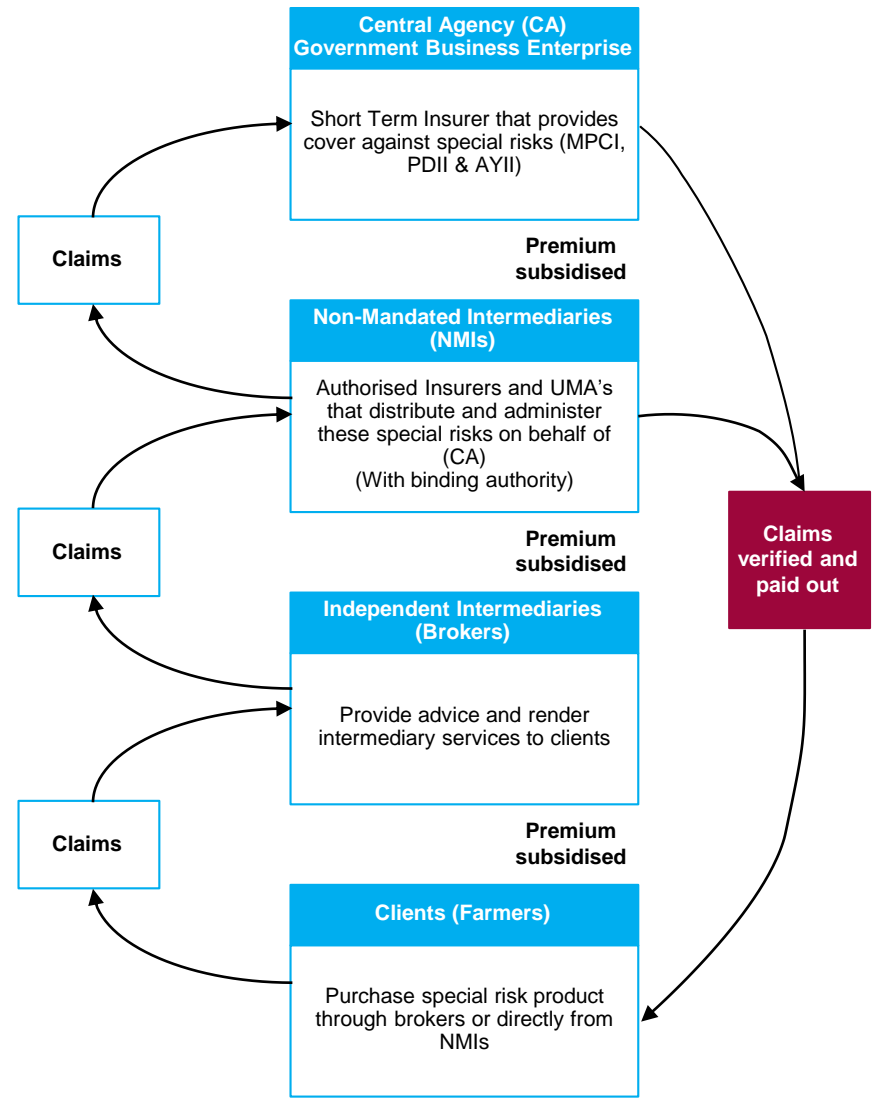
There are a number of key issues that were not part of the scope of the World Bank Diagnostic Exercise, which the Government of South Africa has had to consider as part of the overall Agricultural Insurance Intervention. These can be grouped in the following clusters:

- Policy decision in respect of:
 - Fiscal implication;
 - Programme design and Institutional framework (risk and premium pooling);
 - Risk financing instruments;
 - Financial institutions consideration;
 - Smallholder farmer product considerations

Policy Decision Considerations: Long-term

Long-term Interventions

- It goes without saying that the sustainability of the MPCl market depends largely on Order Winners of the Critical Success Factors as indicated on (table 1)
- This is important for the survival of the commercial farming community and it requires government intervention to supporting the policy goal of maintaining national food security
- The following programme design and institutional framework is an adapted hybrid of one of the proposed models in the World Bank report
- Proposed PPP structure
- It is one of the envisaged Government Intervention Delivery Mechanism that will make it possible to implement a structured risk financing instrument, be it a stop loss reinsurance subsidy or direct premium subsidy.



Note: Proposed PPP Structure.

Short-term Interventions: Short-term

The Following Clear Tangible Milestones are Planned for the Next 12 Months

- Development of Smallholder Livestock Producers Pasture Drought Index Insurance
- Development of Smallholder Crop Producers Area Yield Index Insurance
- Development of a management and operating system for both PDII and AYII
- Development of an inclusive distribution channel
- Development of education and training programme
- Engagement with the FSB to recognise parametric insurance as insurance, as defined by their regulations

Annexure: Overview of Agricultural Insurance in South Africa

History of Agricultural Insurance in SA

Background and History of Agricultural Insurance in South Africa

- 1970s – State started a Rand-for-Rand subsidy of farming activities
 - Scheme was not sustainable since farmers relied on drought relief schemes from the State
 - Since then, private insurers continue to provide crop insurance to commercial farmers without subsidies
- In 1996 the Strauss commission recommended that the Government should enter in a risk sharing agreement with the Private sector to assist farmers and producers
- In 2002 a study jointly conducted by the DAFF, Financial Institutions, Insurance Companies, Farmer Organisations, with the support of the USA/RSA Bi-National Commission
- In 2003 Agricultural Insurance Bill presented to Cabinet
 - Not taken further due to insufficient information of the cost implications to National Treasury
- 2010 SAIA position paper on the potential role of crop insurance in the South African agricultural sector
- In 2013 NT and DAFF commissioned Andisa Agri to conduct a feasibility study
 - Limitations included that it was heavily focused on commercial farmers and need for further cost implications
- In 2016 NT and DAAF requested World Bank to Explores the feasibility and indicative fiscal cost for potential government interventions in agricultural insurance market

Key Outcomes

Key Messages and Outcomes

- NT and DAAF are committed to building three agricultural insurance programmes, namely:
 - For commercial farmers, the introduction of a stop loss facility to help rebuild and stabilise the existing MPCl market
 - ◆ NT/DAAF will lead a task team mandated to develop a statutory coinsurance pool which will underpin the PPP
 - ◆ It is anticipated that it will take 6 months to build such a structure
 - For smallholder crop producers, developing an area yield index insurance (AYII) programme
 - ◆ A pilot project to be incubated within the SAIA. It is anticipated that it will take 12 months to build this programme
 - For smallholder livestock producers, developing a pasture drought index insurance (PDII) programme
 - ◆ Government would finance the development of the system as well as co-finance premium subsidies for targeted producers. Once the insurance contracts were in place, livestock producers would receive claim



Appendices

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1. Key Industry Players
 2. Acronyms

Key Industry Players

Title	First Name	Last Name	Job Title	Organisation
Mr	Chris	Venter	Chief Executive Officer	Afgri
Dr	John	Purchase	Chief Executive Officer	Agbiz ⁽¹⁾
Mr	Johan	Pienaar	Deputy Executive Director	Agri SA
Mr	Omri	van Zyl	Executive Director	Agri SA ⁽¹⁾
Mr	Phakamani	Hadebe	Chief Executive, CIB South Africa	Barclays/ABSA ⁽¹⁾
Mr	Charl	Greyvensteyn	Head: Secondary Agri, CIB	Barclays/ABSA ⁽¹⁾
Mr	Loffie	Brandt	Head: Agri Sales Enablement	Barclays/ABSA
Mr	Percy	Mathebula	Business Manager	Barclays/ABSA
Mr	Pierre	Venter	General Manager	BASA ⁽¹⁾
Dr	Ferdi	Meyer	Executive Director: BFAP	BFAP ⁽¹⁾
Mr	Jacob	Hlatshwayo	Deputy Director General	DAFF
Ms	Elaine	Alexander	Deputy Director General	DAFF ⁽¹⁾
Mr	Francois	Marais	Head: Agriculture	First National Bank ⁽¹⁾
Mr	PG	Strauss	Managing Director	Free State Oils/VKB ⁽¹⁾
Mr	Muzi	Dladla	Executive Manager	Land Bank ⁽¹⁾
Mr	TP	Nchoncho	CEO Land Bank	Land Bank ⁽¹⁾
Mr	Gary	Conway	Executive Manager	Land Bank ⁽¹⁾
Mr	Bothwell	Deka	Director	National Treasury
Dr	Reshma	Sheoraj	Director	National Treasury
Mr	Dino	Lazaridus	Economist	National Treasury
Mr	Duncan	Pieterse	Chief Director Microeconomic Policy	National Treasury ⁽¹⁾
Mr	John	Hudson	Head: Agribusiness	Nedbank
Ms	Louise	Swart	Research and Liaison Manager ⁽²⁾	Nedbank ⁽¹⁾
Mr	Cobus	De Bruyn	Divisional Manager: Agriculture	Nedbank ⁽¹⁾
Mr	Mpumelo	Maseko	Associate Principal	PIC
Ms	Thabi	Nkosi	Senior Economist	PIC ⁽¹⁾
Mr	Nico	Groenewald	Head: Agribusiness	Standard Bank ⁽¹⁾
Ms	Nevashnee	Naicker	Communications and Stakeholder Manager	Tiger Brands
Ms	Bridgitte	Backman	Group Executive: Corporate Affairs and Sustainability	Tiger Brands ⁽¹⁾
Prof	Mohammad	Karaan	Dean, Faculty of AgriSciences	University of Stellenbosch ⁽¹⁾

1. Core team members.

2. List not exhaustive, industry bodies such as PHAKISA also consulted.

Acronyms

Acronym	Description
WAS	Water Administration Systems
AFASA	Abalone Farmers Association South Africa
AGOA	African Growth and Opportunity Act
BEE	Black Economic Empowerment
BFAP	Bureau for Food and Agriculture Policy
BI's	Black Industrialists
BRICS	Brazil, Russia, India, China and South Africa
CA	Central Agency
DAFF	Department of Agriculture, Fisheries and Forestry
DFI's	Development Finance Institutions
DRDLR	Department of Rural Development and Land Reform
EF	Emerging Farmers
EME	Exempted Micro Enterprise
FIVCRT	Fruit Industry Value Chain Round Table
FSB	Financial Services Board
GDP	Gross Domestic Product
IDC	Industrial Development Corporation
JV	Joint Venture
MPCI	Multi Peril Crop Insurance
NAFSA	Association of International Educators
NAFU	National African Farmers Union
NDP	National Development Plan
NMI's	Non – Mandated Intermediaries
NT	National Treasury
OECD	Organisation for Economic Co-Operation and Development
PIC	Public Investment Corporation
PPP	Public Private Partnership
R&D	Research & Development
ROI	Return on Investment
SAIA	South African Insurance Association
SLA	Service Level Agreement
SOC	State Owned Company
SPS	Sanitary and Phtosanitary
SWPN	Strategic Waters Partners Network
UMA's	Underwriting Management Agency
WAS	Water Administration Systems
WRC	Water Research Commission