

Mail and Guardian Land Reform Event

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Acting CEO: Land Bank

Date: 28 March 2018



PRESENTATION OUTLINE



- Overview of Land Bank
- Strategic Objectives
- Agriculture and Agribusiness outlook for 2019
- Impact of EWC on assets and liabilities
- Protecting banks rights as creditors
- Land Redistribution
- Funding structures for emerging farmers

OVERVIEW OF THE LAND BANK

The Mandate of the Land Bank and the National Development Plan highlights the importance of the Agriculture sector to the country's Development and Transformation agenda...

Mandate

The objects, as per the Land Bank Act, No. 15 of 2002, are the promotion, facilitation and support of:

- **Equitable ownership** of agricultural land, in particular increasing ownership of agricultural land by HDI's **Agrarian reform**, land redistribution or development programmes aimed at HDI persons
- **Land access** for agricultural purposes
- **Agricultural entrepreneurship**
- Removal of the legacy of **racial and gender discrimination** in agriculture
- **Enhancing productivity**, profitability, investment and innovation
- **Growth** of the agricultural sector and better use of land
- **Environmental sustainability** of land and natural resources
- **Rural development** and **job creation**
- Commercial agriculture
- **Food security**



The NDP views agriculture as central in achieving its inclusiveness and socio-economic goals

“Better land use in communal areas has the potential to **improve the livelihoods¹ of at least 370 000 people.**”

“A further **70 000 livelihood opportunities** are created if land reform beneficiaries are properly supported.”

“**Agriculture has the potential to create close to 1 million new jobs by 2030**, a significant contribution to the overall employment target.”

National Development Plan; Vision 2030

The Bank is generally funded by the local debts and capital markets



A poorly executed Expropriation Without Compensation could result in the following :

- Main source of funding drying up as investors might not be willing to continue funding Land Bank.
- Funds might come at an added risk premium due to perceived higher risk levels.
- Deterioration of the Bank's financial stability.
- If the Bank's right as a creditor is not protected then the Bank might be required to repay its funding portfolio .
- Government intervention would be required to settle the debt

Land Bank's funding agreements typically include "Event of Default (EoD)"; "Cross Default" and "Financial Covenant" clauses to provide lenders certainty of performance against their loans.

"The ability of the Borrower to conduct its business is wholly or substantially curtailed by any seizure, expropriation, nationalisation, intervention, restriction or other action by or on behalf of any governmental, regulatory or other authority or other person."

Funding affected	Amount	Notes
▪ Bi-lateral loans with "Expropriation" EoD	R 8.8 billion	Repayable on demand should an event of default be triggered
▪ DMTN Cross Default	R12.0 billion	Repayable should default occur on other facilities
▪ Commercial Paper not governed by agreements	R20.2 billion	It is safe to assume that if an EoD is present that all "CP" investors will withdraw funds upon maturity
Total	R41.0 billion	

The Bank's
assets are
generally
secured by
mortgages



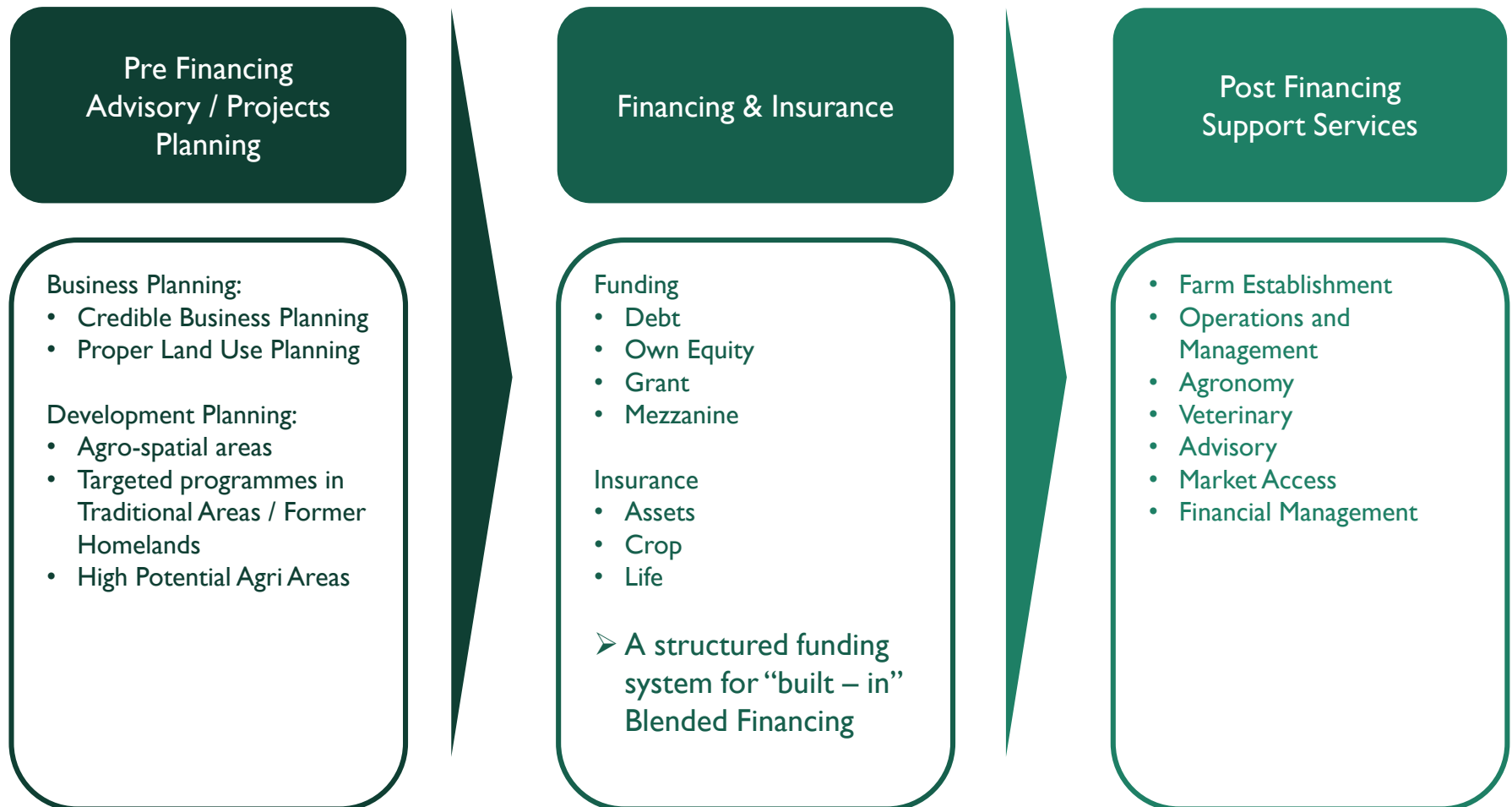
A poorly executed Expropriation Without Compensation could result in the following :

- Reduction in collateral values
- Increase in defaults
- Deterioration of the Bank's financial stability.
- Increased impairments
- Capital reduction and need for recapitalisation

- Expropriation (with or without) compensation, if it is well executed, has the potential for some significant economic and social benefits that may accrue to the economy of South Africa in general and to the agricultural sector in particular.
- In the case of well-executed land reform that is supported by the necessary institutional arrangements and grant funding:
 - The Bank would be able to increase lending for transformational purposes and grow the sector;
 - Additional new-generation farmers, including youth and women, would be able to enter the sector thus improving equality and inclusivity;
 - New-generation farmers, especially youth, would have a positive impact on the age profile of the sector and support a future client base for the Bank;
 - Additional farmers would enable job creation, especially if capacity is created in food-processing and the Bank could undertake value-chain based financing.

End to End Development Finance System

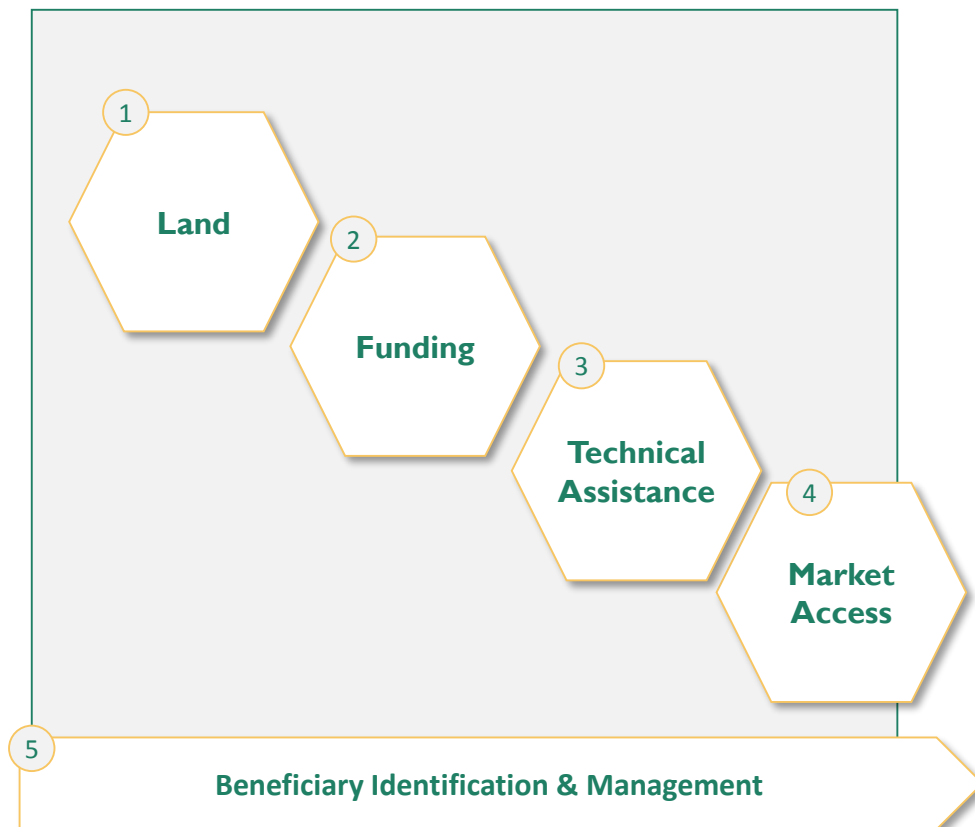
To address challenges that impact on transformation transactions in agriculture a framework focused on pre-investment, funding and post-investment support should be provided.



Development Financing

Critical success factors to enable greater project success

Major Risks Facing Farms and Agri-Businesses ...



Key Considerations ...

- Secure long term rights to land
- Collateral
- Farming Skills Development
- Managerial Skills Development
- Financial Skills Development
- Secure market access
- Careful management of beneficiary schemes
- Social Facilitation and Mobilisation

Development Financing

The “How”?? – workable solutions



**Empowerment Finance:
Transformative & Growth
Orientated**



**Joint Ventures /
Investment
Partnerships:
Greenfields**



**Value-Chain Financing:
Wholesale Fund
Partnerships**



**Corporate Farming
Investment Structures**

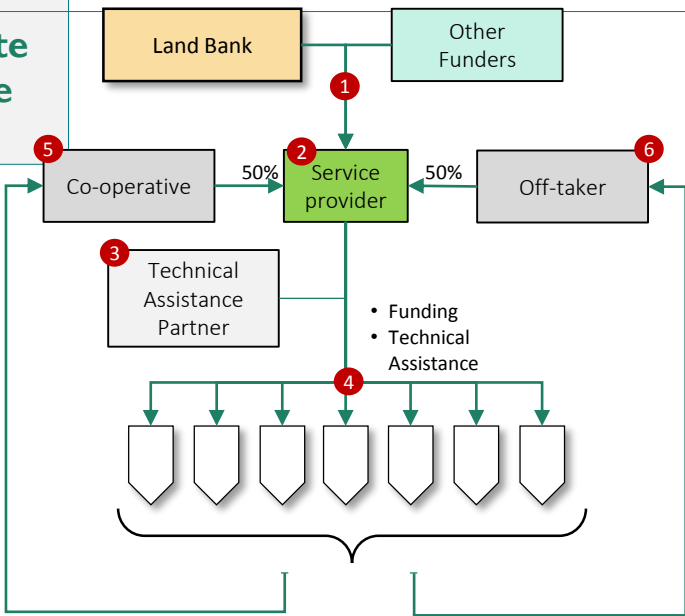


**Retail Intermediary
Channel Partnerships**



**Communal Land:
Commercialisation
Programme**

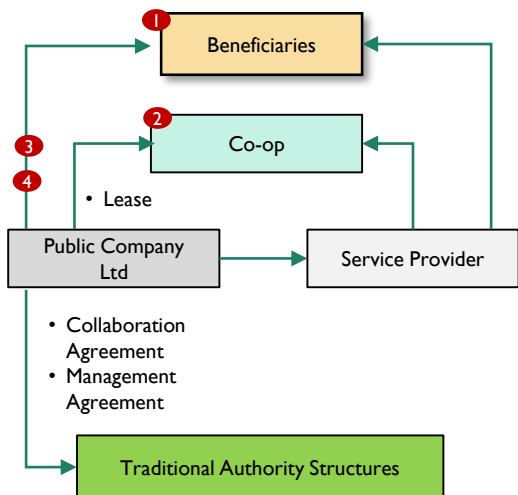
Development Impact - Intermediaries

Overview	The company provides financial services to Community Property Associations and Strategic Partners as well as to Small Scale Growers in the sugarcane production industry. 9% of processed sugar, packed in a well-known brand comes from these farms. Shareholders 38 including Strategic Partners and communities		
Corporate Structure	 <p>The diagram illustrates the corporate structure of Land Bank. At the top, 'Land Bank' (orange box) and 'Other Funders' (light blue box) are connected by a line. An arrow labeled '1' points from 'Land Bank' to 'Service provider' (green box). 'Service provider' is owned 50% by 'Co-operative' (grey box) and 50% by 'Off-taker' (grey box). 'Co-operative' is connected to 'Service provider' by an arrow labeled '5'. 'Off-taker' is connected to 'Service provider' by an arrow labeled '6'. A 'Technical Assistance Partner' (grey box) is connected to 'Service provider' by an arrow labeled '3'. 'Service provider' provides 'Funding' and 'Technical Assistance' (indicated by a list) to a group of seven farmers (represented by white boxes). An arrow labeled '4' points from 'Service provider' to the farmers. A bracket groups the farmers, with an arrow pointing back to 'Co-operative' and another pointing back to 'Off-taker'.</p>		
Beneficiaries	34 570 (Land owners, community trust, employees, etc.)		
Development Impact	<ul style="list-style-type: none"> • 3 864 permanent employees • 210 Seasonal employees • 17 New business created (along the agri-value chain) • All employees formalised (Registered for UIF, etc.) • Change in profitability after assistance R22m • Change in value of assets R73m • 646 on-the-job training (farming business related training) • 88 social & life skills training 		
Technical Assistance Provided	<ul style="list-style-type: none"> • Soil analysis, Irrigation management, Crop management, Fertiliser and chemical management, Ratoon management, On field support and training, Yield analysis for financial projections 		
Region	<ul style="list-style-type: none"> • Malelane, Mpumalanga 		

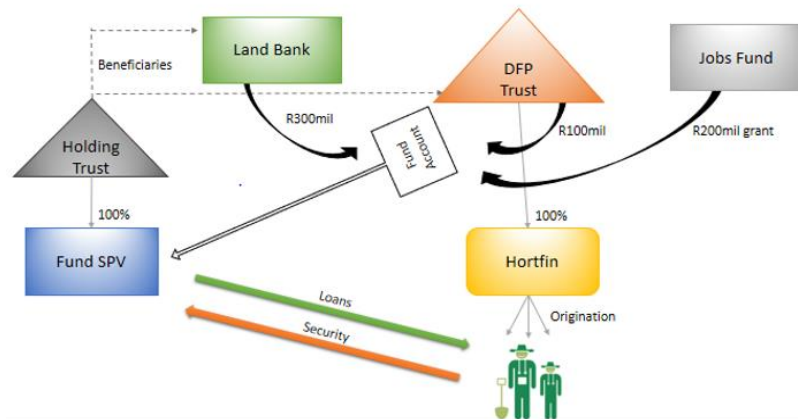
Key Points

1. Land Bank and other institutions finance Service Provider
2. It is owned by Co-op (50%) and Off-taker (50%)
3. Technical Assistance partner provides technical assistance to farmers
4. Farmers receive technical assistance and financing
5. Farmers buy into Co-op
6. Off-taker guarantees offtake

Development Impact - Intermediaries

Overview	A listed sugar company and Ingonyama Trust Board jointly developed a leasehold model which aims to revitalise areas that have fallen out of agriculture and / or bring new areas into cultivation.		
Corporate Structure	 <pre>graph TD; Benef[Beneficiaries]; Co-op[Co-op]; PCL[Public Company Ltd]; SP[Service Provider]; TAST[Traditional Authority Structures]; PCL -- "Lease" --> Co-op; PCL -- "Collaboration Agreement" --> Benef; PCL -- "Management Agreement" --> Benef; PCL --> TAST; Co-op --> Benef; SP --> Co-op; SP --> Benef;</pre> <p>The diagram illustrates the corporate structure of the leasehold model. It shows a Public Company Ltd at the center, which has a 'Lease' relationship with a Co-op, and 'Collaboration Agreement' and 'Management Agreement' relationships with Beneficiaries. The Public Company Ltd also has a direct relationship with Traditional Authority Structures. The Co-op and Service Provider both provide services to the Beneficiaries.</p>		
	Beneficiaries	Demographics of primary cooperatives formed in project areas: <ul style="list-style-type: none">• Total members planted: 942• Male: 38%• Female: 62% Development highlights: <ul style="list-style-type: none">• 4 596 ha of new sugarcane, with production projected to reach 186 000 tons pa.• > 1 000 individuals employed annually.• Total community benefit streams are projected to increase to R28.0 million pa	
	Development Impact	<ul style="list-style-type: none">• Empower black farmers and equip them with skills• Develop catalytic sugarcane development programmes that have a positive impact on socio-economic development• Invest in rural communities and high agricultural potential areas in order to increase sugarcane production in the KZN region• Create sustainable job opportunities with strong economic multiplier effects	
	Region	<ul style="list-style-type: none">• Mbongolwane• Mvuzane• Vuma• Kholweni	

Development Impact – Blended Finance

Overview	<p>A R600m fund for providing debt finance and comprehensive business support to majority Black owned businesses in the deciduous fruit value chain. This consists of grant funding provided by the JOBS Fund to the Deciduous Fruit Producers Trust (DFPT), interest free debt from the deciduous fruit industry and concessionary debt finance by Land Bank. DFPT will (via its subsidiary Hortfin) be responsible for sourcing and executing lending transactions and providing comprehensive business support. The Bank will provide the full suite of fund management services.</p>
Corporate Structure	<div data-bbox="63 701 865 1115" data-label="Diagram">  <p>The diagram illustrates the corporate structure of the fund. At the top, the 'Holding Trust' (grey triangle) is 100% owned by the 'Fund SPV' (blue rectangle). The 'Holding Trust' is also the 'Beneficiaries' of the 'Land Bank' (green rectangle). The 'Land Bank' provides a 'R300mil' loan to the 'Fund Account' (white rectangle). The 'Fund Account' is 100% owned by the 'DFP Trust' (orange triangle). The 'DFP Trust' provides a 'R100mil' loan to 'Hortfin' (yellow rectangle). The 'Jobs Fund' (grey rectangle) provides a 'R200mil grant' to the 'DFP Trust'. 'Hortfin' is 100% owned by the 'DFP Trust' and is responsible for 'Origination' of 'Loans' (green arrow) and 'Security' (orange arrow) for the 'Beneficiaries' (represented by three green figures at the bottom).</p> </div>
	<div data-bbox="898 478 1926 635"> Beneficiaries <p>Majority Black owned entities throughout the deciduous fruit value chain</p> </div> <div data-bbox="898 635 1926 1149"> Development Impact <p>Affordable finance to emerging Black farmers, coupled with:</p> <ul style="list-style-type: none"> • Technical support • Market access • Business support • Crop and asset insurance <p>Sector transformation through funding empowerment transactions</p> <p>JOB creation, through providing solely expansionary finance</p> </div>
Key Points <ol style="list-style-type: none"> 1. Fund SPV ring-fenced and administered by Land Bank 2. Land Bank final approver of fund credit transactions 3. DFPT, Land Bank and Hortfin appoint trustees on Holding Trust, with limited powers 	<div data-bbox="898 1149 1926 1336"> Region <ul style="list-style-type: none"> • National </div>

THANK YOU!



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www.landbank.co.za