The Role of the Land Reform Empowerment Fund in supporting and furthering the Mandate of Rural Development and Land Reform Department. Achievements, Challenges and Proposed Solutions

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LAND REFORM EMPOWERMENT FACILITY (LREF)

Background

- LREF Broad-Based BEE Fund
- Established in FY 1999/2000
- Capitalised by the Department of Rural Development & Land Reform in collaboration with European Union
- The Fund housed at and managed by Khula Enterprise Finance
- As a Land Reform and Agriculture Sector-specific Fund

Purpose

- To Support Governments’ 3 components of the Land Reform Programme
- by Enabling commercial lending institutions and other reputable agricultural lending institutions to finance black emerging farmers to own, manage and control land-based agricultural assets
LAND REFORM EMPOWERMENT FACILITY cont..

Financing instruments

- **Mortgage Loan scheme**
  - outright purchase of agricultural land
  - maximum loan size: R10 million per project
  - maximum loan size per individual: R800k
  - repayment period ≤ 20 years (depending on the venture’s repayment ability)
  - interest rate to RFI: Prime - 5% per annum

- **Equity Share loan Scheme**
  - Partnership arrangement between PDIs and strategic commercial partner
  - At least 25.1% shares to be transferred to the PDIs
  - maximum loan size: R10 million per project
  - maximum loan size per individual: R600k
  - third party investors (Black consortia) acquire ≤ 50% shares
  - repayment period ≤ 20 years (depending on repayment ability of the enterprise)
  - interest rate to RFI: From Prime - 4% to Prime - 5% per annum
LREF APPLICATION FLOW & APPROVAL PROCESS

Commercial Partner

Third Party Investor

Workers Trust

Project (New company)

Retail Financial Intermediary

Land Reform Empowerment Facility

LREF Disbursement to the RFI

RFI disbursement to the project
LREF BEE SCORECARD

Direct Empowerment .................................................................................................................. 40%
  - Ownership & control
  - Participation in decision making (average)

Human Resources Development Plans & Employment Equity........ 45%
  - Skills Development & Learnerships
  - Gender Equity

Staff Welfare .................................................................................................................................. 05%
  - Compliance to Minimum Wage Legislation

Residual .......................................................................................................................................... 10%
  - Enterprise Development…
  - Preferential Procurement,
  - Job creation etc.

Total ............................................................................................................................................. 100%
Since inception

Number of projects approved: 72

Amount approved: R192 million

Average loan size per project: R 2.7 million

Total no of borrowers: 7,154

Female borrowers: 3,393 (47%)
LREF LOAN BOOK SINCE INCEPTION

- 2000: 20,989,000
- 2001: 26,189,000
- 2002: 45,706,000
- 2003: 76,199,000
- 2004: 88,699,000
- 2005: 131,581,742
- 2006: 159,388,742
- 2007: 180,028,742
- 2008: 181,628,742
- 2009: 191,694,742
- 2010: 191,694,742
RFIs Utilisation since inception

30 600 000 (16%)
5 200 000 (3%)
4 000 000 (2%)
43 677 242 (23%)
8 189 000 (4%)
81 945 500 (43%)
18 083 000 (9%)
PROVINCIAL SPREAD of Investments

- EC: 32,499,000
- WC: 56,879,000
- KZN: 40,200,000
- MP: 20,100,000
- LP: 4,250,000
- NC: 16,846,742
- NW: 11,020,000
- GP: 9,900,000
- FS: 0
STRENGTHS

- The LREF capital is fully secured – loans extended to RFIs;
- Provision of capacity building funds for PDIs;
- Continued involvement of the commercial strategic partner provides management stability and mentorship to the PDIs;
- Concessionary interest rates benefit charged RFIs is passed on to the end-users.
CHALLENGES AND LESSONS LEARNED

- The willing buyer, willing seller policy tended to inflate the value of agricultural land;
- LREF financing limits not conducive to individual farmers;
- Advent of NCA: Banks and other RFIs have become more stringent in their lending criteria;
- Change of Policy from LRAD to PLAS brought about a downward shift in demand for land acquisition in favour of production credit (which is not within LREF mandate);
- LRAD grants served as own contribution for LREF applicants. Removal thereof greatly affected the operation of LREF.
PROPOSED SOLUTIONS

- Khula to lend directly to the DRDLR target market (First Pilot on 1st March 2011)
- Broaden Participation in LREF to include Commercial and Developing Cooperatives
- LREF must, to a limited extent consider direct investment in Emerging farmers projects to warehouse shares on behalf of communities for later off-loading
- Khula Wholesale Finance to consider Repeat borrowing by projects;
- The fund must consider participating in joint risk sharing with the RFIs;(as a financial incentive)
- Expand the fund’s lending scope to include agricultural financing needs other than land purchase and Equity Share;
- Production input loan; Mechanization loan; Infrastructure Development loan
- **After care**: Emphasis on Skills training, Mentorship and PDI capacity building
- Engage in an aggressive market education drive (Gov. Officials, relevant staff of other RFIs);
- **Own Contribution**: nominal amount required to keep entrepreneur committed
- **Transaction cost**: Lower the farmers transaction cost by negotiating with GOV to cover operational cost, credit risk and profit margin
Proposed solutions continued…

- Project Commercial Viability to be emphasised than Collateral

- Means Test: More robust and rigorous processes and procedures to be followed when assessing financial applicants including a means test

- Absentee Farmers: Many farms lying fallow and abandoned because of “farmers” who live in cities.

- Job Creation: Future funding of farmers projects must clearly demonstrate how they are going to support Govt job creation drive
Khula-Akwandze Fund (KAF)

Background
- Akwandze is a 50/50 Joint Venture between Tsb Sugar RSA and Liguguletfu Farmers Co-operative;
- The Khula-Akwandze Fund is a 75/25 Joint Venture between Khula and Akwandze;
- Fund approved by Khula in December 2007
- Capitalised at R100 million: R75 million by Khula, R25 million by Akwandze

Duration
- The fund will endure for a period of 9 years: (2009 – 2018)

Purpose
- Provide Agricultural Development loans to small and medium scale sugarcane growers with Off-take Agreement with TSB mills at Malelane and Nkomati regions
Khula-Akwandze Fund...

Loan Financing Instruments

- Crop establishment: R16,500 per hectare, redemption 6 years
- Ratoon management: R2,000 per hectare, redemption 1 year
- Special Ratoon Man.: R7,000 per hectare, redemption 1 year
- Irrigation equipment: R4,000 per hectare, redemption 1 year
- Electricity supply: R1,300 per hectare, redemption 1 year
- Irrigation infrastructure: R16,000 per hectare, redemption 5 years
- Special electricity Supply: R3,000 per hectare, redemption 1 year
- Working capital: R5,500 per hectare, redemption 1 year
- Contractor bridging: As required, redemption 1 year
- RTO rental bridging: As required, redemption 1 year
Khula-Akwandze Fund…

**Fund Manager**
- Akwandze Agricultural Finance (Pty) Limited

**Management Fees**
- Fund Manager is paid 7% of average loan book per annum
- Interest Rate = Prime lending rate + 2% per annum on SME loans
## Khula-Akwandze Fund

### Development Impact (30 January 2011)

<table>
<thead>
<tr>
<th>PROJECT</th>
<th>Number of clients by gender</th>
<th>Outstanding loan balance by Gender</th>
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<td>TOTAL</td>
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</table>
Khula-Akwandze Fund

Strengths
- Akwandze’s 50/50 shareholding between growers & Tsb;
- Technical field support for growers (no cost);
- Cane under irrigation;
- Support from the South African Sugar Association
- Research
- IT system for Akwandze at no cost
- Start-up capital for the growers at the formation stages of Akwandze
Khula-Akwandze Fund…

- Guaranteed market;
- Internationally set price therefore no manipulation from Tsb;
- Strong governance (Board & Credit committee).

**Note:** Fund is in its infancy stages and therefore too early to make a conclusive observation on success or failure.