

LAND REFORM

23 & 24 AUGUST 2018



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Building Blocks for Successful Agri-finance Models

MAJOR CONCERNS:

Uncertainties and Volatility (Both swear words to financiers but opportunity to business men)

❑ Lack of GDP growth:

- Agri GDP 2018 – 4%.
- Competitiveness of SA down from 47th to 61st in last 2 years.

❑ Unemployment:

- 27% – but more than 50% under the youth.
- 35 000 commercial farmers – 847 000 farm workers → 1 : 24.

❑ Inequality:

- SA's Gini-coefficient between 0.660 and 0.696 (0 being equal and 1 being unequal).
- SA has a reduction in poverty levels, but a rise in income inequality.

❑ SOEs are not effective:

- Eskom – R19bn.
- Transnet – agri-product under-performance. Normalised economy – rail 5 times cheaper than road. Currently SA – at execution – 2 times more expensive.

CRITICAL INGREDIENTS OF A SUCCESSFUL FINANCING MODEL ARE:

- Capable jockeys.
- Bankable project.
- Correctly-structured financing.
- Trust.
- Mentorship.
- Hard, dedicated work.
- Adaptable and dynamic management.

In agriculture – and more specifically primary production, the norms are:

- Return on equity > 12%.
- Cash flow > 15%.
- Capital structure > 65% own capital.
- Effective capital allocations based on solid market research.

How do we bridge the gap and achieve success in agri-projects?

SOLUTIONS:

❑ **Government:**

- Available land: State-owned entities – more than 4 000 farms across South Africa.
- Unproductive capital on balance sheet.

❑ **Private sector:**

- 35 000 commercial farmers across SA in every sector of agriculture who can act as mentors and partners.
- Incentivise behaviour.

❑ **Landbank:**

- **Patient financing:**
 - both on land, and
 - working capital
 - 10-year horizon
 - subsidised to achieve outcomes
- Consolidate all Government-backed schemes, development finance, blended equity contribution model.

SOLUTIONS (continue):

❑ **Rest of the food value chain:**

- New entrants with potential and capacity to play in all segments of the food value chain – not only farmers!
- Only 0.06% of our population are commercial farmers – rest of the value chain is substantial.

❑ **Government and Business:**

- Demand-side management – develop export markets.
- Only produce if there are sustainable markets.

SUCCESS STORIES:

- ❑ ZZ2 (5 projects)
- ❑ Schoeman (Zamukele – Adopt a farmer) (Dry beans)
- ❑ Beef Exports (Karan Beef and Beefmaster)
- ❑ Distell
- ❑ Westphalia (4 projects)
- ❑ Sernick
- ❑ Whiphold (Eastern Cape)
- ❑ Witzenberg (Rossouw Collier)
- ❑ Agbiz/BASA financing model
- ❑ Cotton SA project

SUCCESS STORIES:

Senwes specific – projects / solutions:

- ❑ Graduate Programme
- ❑ New farmer support programs. Access to our infrastructure, financing, input supplies, market access
- ❑ Wealth business – incorporating Tax, BEE and structuring to assist commercial farmers to help and stabilise their environment
- ❑ Active support of new farmers (Julias)
- ❑ E-Buro (Benchmarking solution)
- ❑ Nation in Conversation – active process of informing public of value of Agri food value chain

WRAP UP

- First adopters of Tech (John Deere example)
- Open, competitive market driven efficiencies (No subsidies)
- Good workforce (Toyota example)
- We (South Africans) are genetically bred to survive and prosper!

“Have a seat at the table or accept being on the menu.”

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