Land reform partnership fund

For job creation, inclusive growth, redistribution and transformation

Proposal for the Jobs Summit

Vumelana Advisory Fund

26 June 2018

1 Proposal

This document responds to the invitation to submit a proposal to accelerate job creation for discussion at a colloquium of NEDLAC partners in preparation for a jobs summit planned for September 2018. It proposes the establishment of a Land Reform Partnership Fund at a cost of R120m with the potential to attract some R6 bn private investment and create or save over 20 000 jobs.

2 Problem statement

Please provide no more than half a page providing an outline of the impediments to job creation that exist and how the proposal will meet the challenges.

Job creation measures the net difference between jobs lost and gained. To make progress, losses must be reduced and gains increased.

The NDP suggests that Agriculture has the potential to create close to 1 million new jobs by 2030. Its strategy is based on "*successful land reform, employment creation and strong environmental safeguards*", among other things.

There is now an endeavour to accelerate the pace of land reform, including by means of expropriation without compensation. But if more land is acquired and transferred more rapidly and the high failure rates continue[1], the impact on employment will be severely negative. If failures could be prevented and new investment attracted the impact would be positive.

The reason land reform projects fail is that when people are dispossessed of their land they lose much more than the land. They lose access to skills, networks and the finance that is needed to make land productive. To return the land without access to the other factors of production leaves the intended beneficiaries stranded and the projects fail.

In the immediate term, the best chance of addressing the problem is to structure partnerships between land reform beneficiaries and private partners who have access to the networks, capital and skills required to make the land productive.

[1] In 2010, the then Minister of DRDLR estimated that 5.9ha had been transferred under the land reform programme and that 90% of that was no longer productive. By 2018 the land transferred has increased to 8.1m ha. Some analysts have argued that the 90% failure rate is an exaggeration. They put the figure at 50%.

These partnerships seldom form spontaneously because of the perceived risk and a lack of trust between the potential partners. When they are attempted the asymmetry of power can produce unsatisfactory results.

The solution is properly mediated partnerships where skilled advisors help communities and private partners establish risk-sharing partnerships that attract private investment, maintain productivity and expand employment.

Finance is required at three levels:

(i) To acquire land and associated fixed and moveable assets for transfer to land reform beneficiaries through the restitution or redistribution programme. This is a government responsibility financed through the fiscus.

(ii) For the acquisition of equity by new community land owners in business ventures on the land they acquire and for the provision of working capital for those businesses. This may be provided from a mix of private investors and pubic sources.

(iii) To pay for transaction advisory services and post settlement support to ensure that sound agreements are made between new land owners and private partners and that the new land owners are assisted to be active participants in the development of their land.

This proposal focuses on the establishment of a fund to finance transaction advisory and community support services. While this third level of funding is by far the smallest of the three levels, the absence of such funding is one of the reasons why land reform projects fail to develop effectively and create jobs and incomes for the intended beneficiaries.

3 Jobs impact

Indicate the impact on employment of the proposal and what is required to make sure that there will be a positive impact on employment. Please also indicate other anticipated benefits from the proposal, if any.

The NDP estimates that 70 000 primary and 35 000 secondary jobs can be created in agriculture by 2030 through the better use of land already transferred under the land reform programme[2].

It is estimated that when the land claims are reopened 397 000 claims will be lodged. If it is assumed that 90% of those claims will be settled by financial compensation, that will leave 39 700 (say 40 000) clams to be settled by the transfer of land. It is not possible to make an accurate assessment of the jobs impact of 40 000 land claims, but if for the sake of illustration it was assumed that 40 000 land claims could result in the transfer of 16m Ha[3], that could result in the loss of 480 000 jobs or the saving of those jobs and the creation of

[2] This assumes that one in three of the existing 185 858 beneficiaries of the redistribution programme can create 40 000new jobs and the 270 000 beneficiaries of the restitution programme could create 27 000 jobs, which will boost the livelihoods of almost 70 000 people.

[3] Approximately 79 000 claims were settled by 2016. The Commission on the Restitution of Land Rights reported that this resulted in the transfer of 3.3m Ha (it is assumed that the 3.3m Ha relates to 10% of the claims (7 900) with 90% settled by financial compensation) that gives just over 400Ha per claim on average. On 40 000 claims would amount to 16m Ha

240 000 new jobs[4] if the admittedly limited experience of Vumelana supported projects is an indicator. Taken together this shows a potential jobs impact of over 700 000 jobs. While these figures are speculative and it is not clear how the state would finance the up to R179bn required to finalise 397 000 claims, this gives some indication of the possible impact of the anticipated restitution process on jobs. If land transferred for redistribution purposes has a similar profile, the jobs impact might double.

The NDP noted that once land is transferred, tenure must be secure and farmers must have access to finance. It proposed the development of a financing system for land reform in commercial farming areas based on the collection of rents by the state from land reform beneficiaries to establish a fund to support new commercial farmers so as to reduce the burden of debt on those farmers and the drain on the fiscus.

But public finance alone is unlikely to be sufficient. In properly structured partnerships private partners of land reform beneficiaries can raise finance off their own balance sheets or in the capital market. This could expand the job creation potential of land reform projects. On a review of just 25 projects, mainly in tourism and agriculture covering about 100 000 ha and benefitting 25 000 households it was estimated that 5500 jobs would be created based on about R1.2bn of private investment[5.]

Thus the creation of a fund to finance transaction advisory and other post settlement support services that would attract private investment into the land reform programme could have a significant impact on job creation.

It is estimated that a fund of R120m could recycle a portion of its capital, attract some R6.6bn investment into land reform projects and support the retention and creation of over 20 000 jobs. (See section 8)

4 Theory of change

Please provide no more than half a page that indicates in practical terms, how the proposal would work – what has to be done, what the outputs would be, how that would lead to the desired outcomes.

The theory of change underlying this proposal is that -

- if independent advisors are made available to structure land reform partnerships, then
- the risks of partnerships will reduce and the level of private investment will increase
- if risks reduce and the level of investment increases then
- productivity will increase and the risk of failure will decline
- if the land is more productively used jobs will be created, incomes will be protected and livelihoods supported.

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[4] Across a narrow sample of 24 projects mainly in tourism and agriculture supported by Vumelana, it looks as if about 30 jobs will be saved and 15 created for every 1000 Ha of land in the projects supported

[5] These figures are drawn from projects in the Vumelana Advisory Fund portfolio of projects

The proposal would work as follows:

a) A fund would be established by the social partners and professional fund managers appointed.[6]

b) Applications would be invited from organisations and individuals capable of providing transaction advisory and community support services as well as from communities, private land owners and government departments.

c) The applications would be assessed on a competitive basis.

d) Transaction advisory services would be funded against deliverable contracts.

e) Where transactions are successfully completed investors would reimburse the advisory costs and the funds would be recycled.

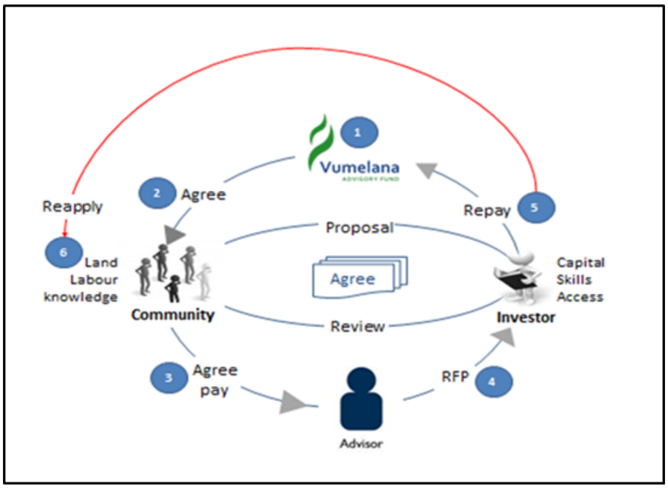
f) Part of the funds recycled would be applied to community support.

5 Existing initiatives/experience

Indicate if the proposal has been attempted or piloted, and broadly what was learned.

The Vumelana Advisory Fund, a non-profit, public benefit organisation (www.vumelana.org.za) has piloted the provision of transaction advisory and communal property institution support services over the last five years on the basis of a founding donation from the Business Trust. The way the model works is shown in Figure 1.

Figure 1 - The Vumelana model

The process works as follows: (i) Applications for funding are invited from communities, government departments, advisors or investors (ii) A co-operation agreement is signed with the community setting out the basis of the relationship between the community and Vumelana. (iii) A transaction advisory team is contracted to structure an agreement in terms of which the community makes the land available and the investor undertakes to finance and manage the operations. (iv) The transaction advisory team procures proposals from potential investors which show how the land will be developed to create jobs, income, skills and other benefits for community members.	 (v) Once an agreement is signed, the investor reimburses Vumelana for the costs incurred by the transaction advisory team in putting the deal together. (vi) The reimbursed funds are used by Vumelana to finance support for the communal property institution for a period of two years, providing institutional and governance support.

[6] Vumelana has developed considerable experience in the management of such a fund over the last five years on a non-profit basis. This includes the management and investment of the funds, oversight and coordination, evaluation of projects and communication to stakeholders controlled by a high level board and audit committee. If the social partners wanted to establish such a fund it could include social partners in project Implementation, oversight and monitoring of implementation.

- 150 prospects have been considered and 57 approved for support;
- 16 agreements have been concluded between communities and investors which will
    - Attract R 586m investment
    - Bring 69389 Ha into productive use
    - Create 1 023 jobs
    - Have the potential to benefit 13 946 beneficiaries
- 10 projects are in progress working with 24 communities. If successfully concluded these have the potential to
    - Attract R665m investment
    - Bring 10 892 Ha into productive use
    - Create 4 557 jobs
    - Have the potential to benefit 21 249 beneficiaries
- Fees have been recovered in about 50% of the cases supported
- Community capacity building has been initiated which includes structuring of organisational arrangements to allow for effective participation in partnerships by communities, establishing sound governance procedures, setting up financial management and reporting systems and designing effective policies and procedures.

The key lessons learnt are that:

- Independent transaction advisors are indispensable for the structuring of sound partnerships for land reform.
- Properly structured partnerships can attract private investment and create jobs.
- Supplementary community support is essential to sustain the partnerships.
- The transaction advisory process cannot be provided on a sustainable basis without grant funding. While fees are recovered on completed partnerships, fees are lost where partnerships are initiated but not completed. The fees recovered are not sufficient to cover the losses on partnerships not completed and the supplementary fees that must be provided for communities support.

6 Constituency participation in implementation

What is the potential for constituencies to participate in the implementation of the proposal?

There is potential for social partners to participate as follows:

Business as:

- Commercial investors and developers working in structured partnerships with land claim communities
- Business operators providing supplies to and operating supplier development programmes for projects

- Social investors co financing the proposed fund

Government as:

- Custodians of the land reform programme
- Managers of the claim settlement and redistribution programmes
- Co-funders of transaction advisory support services

Labour as:

- Protectors of the interests of workers whose jobs are at risk if land reform projects fail; and
- Workers who acquire jobs in new ventures

Land reform beneficiaries and the unemployed as:

- Land owners
- Shareholders in joint ventures
- Co-managers of projects
- Workers on projects

7 Benefits

What social/economic groups would benefit from the proposal directly and indirectly? Please use the following table, and do not list more than 5 groups. Please describe the benefits as precisely as possible.

Potential benefits of the overall proposal are shown in Figure 2 below.

Figure 2 Benefits

<table>
<tr><th>Group</th><th>Job creation</th><th>Other benefits</th><th>Time frame for success</th></tr>
<tr><td>Restitution claimants</td><td rowspan="2">7500 Jobs created</td><td rowspan="2">Income from
• employment,
• rental and
• shareholding
Training
Enterprise opportunities</td><td rowspan="5">3-5 years depending on the nature of the projects. Greenfield projects take longer to develop</td></tr>
<tr><td>Redistribution beneficiaries</td></tr>
<tr><td>Farm workers</td><td rowspan="2">15 000 jobs saved</td><td rowspan="2">Income from employment</td></tr>
<tr><td>Hospitality workers etc</td></tr>
<tr><td>Government</td><td></td><td>Taxes collected from employment and development</td></tr>
</table>

Figure 3 shows an example of how the benefits described may apply at the project level for the community, the investor, Government and government agencies. In this example taken from a tourism project the benefits for the community are derived predominantly from lease fees and salaries. In addition the community will benefit from training, food supply and income earned from guiding and excursions.

A range of additional benefits would be available to the community through the demand created for other services (not included in the initial cost benefit analysis) such as cattle breeding, vegetable growing, transport and security.

Community	NPV
Lease fee and signatory payments to Trust	12 783 684
Direct, salaries (exc. mgt)	6 184 347
Local food value chain	9 039 795
Excursions (assumed subcontracted to community)	8 186 900
Training received by lodge staff	164 961
Dividends from shares	3 364 820
Value of shareholding in year 20	2 067 230
Share purchase	-4 149 562
Total	**41 791 736**

Investor	NPV
Investment	-62 620 172
Dividends from shares	70 421 814
Salaries (mgt only)	5 099 557
Time spent setting up agreement, year zero (see Table !	-27 227
Total	**12 873 972**

Government	NPV
Taxes paid	27 996 705
Total	**27 996 705**

ECPTA	NPV
Lease fee and signatory payments	6 391 900
Total	**6 391 900**

8 Cost and potential sources of funding

What social/economic groups would bear the cost of implementing the proposal directly or indirectly? Please use the following table, and do not list more than 5 groups. Please describe the costs as precisely as possible. In the case of financial costs, who would pay them?

It is estimated that a discretionary fund of R120m would be required to support up to 150 projects with the potential to create up to 22 500 jobs depending on the attrition rate.

The assumptions in figure 3 have been used to estimate the anticipated costs. These assumptions are drawn from the averages that obtained in the case of 26 projects completed and in progress supported by the Vumelana Advisory Fund except for the acquisition cost which was calculated based on an expenditure review of the Restitution programme undertaken for the National Treasury7

While the figures are drawn from restitution projects, the projects supported could include restitution and redistribution projects. The figures do not take account of attrition (i.e. projects started but not completed because investors can't be found or as a result of intra community conflict or public sector delays). If there was a 50% attrition rate the jobs impact would drop from 22 500 to 11 250.

[7] Expenditure and Performance Review of the Restitution Programme Report by Genesis Analytics for National Treasury 19 August 2014

Figure 3 Assumptions[8]

	Per project		150 Projects	
Hectares	3 000	Ha	450 000	Ha
Acquisition cost Rm	27	Rm*	4 050	Rm
Investment cost Rm	44	Rm	6 600	Rm
Jobs saved	100	Jobs	15 000	Jobs
Jobs created	50	Jobs	7 500	Jobs
Total jobs	150	Jobs	22 500	Jobs
Transaction fee Rm	0.80	Rm	120	Rm
Transaction fee recovered	-0.40	Rm	-60	Rm
Capacity building fee	0.80	Rm	60	Rm

*R9000 per Ha

These assumptions produce the following result.

Figure 4 Potential sources of funding

Activity	Group	Anticipated costs	Potential sources of funding to implement the project	Time frame for impact
Land acquisition	Government	R4bn	Restitution funds Redistribution funds	3 – 5 years depending on the number of transaction advisory and support teams available
Land development	Investors	R6.6bn	Capital market Own funds	
Transaction advisory and support services	Donors	R120m	CSI funds Aid agency budgets Government	

Note:

(i) Land acquisition costs are part of the budgeted funds of the Department of Rural Development and Land reform.

(ii) Land development costs are based on commercial investments by private investors. In some cases this may include capital raised from DFIs like the IDC or Land Bank. Recapitalisation funding from the Department of rural development and land reform may also be applied to support land development.

(iii) Transaction advisory and support services are the focus of this proposal as this is where discretionary funding is required to facilitate agreements and support

[8] Making generalised assumptions is risky. Different conditions in different sectors and different parts of the country produce vastly different sizes, investment values and jobs potential. The assumptions are made in order to provide general data for the completion of the proposal only. Specific instances may vary significantly form the generalised averages.

communities. This may be funded by corporates as part of their CSI work, aid agencies or the Government

(iv) In addition to the groups shown here, the new land owners can themselves become investors in land development and pay for transaction advisory and support services out of rentals earned on their land or government grants received. For the sake of simplicity these are omitted from the table for now as only a small number of communities are currently able to carry these costs.

9 Risks

What are the main risks that would prevent the proposal from achieving the anticipated outcomes? Describe at least two.

(i) Investment risk

Unlike jobs created by the allocation of public funds, Job creation as a result of private investment requires the attraction of private investors with the inherent risk that investors can't be found. Investors are discouraged if they believe that the risks are too high.

(ii) Land reform risk

The land reform programme is perceived to be politically charged and administratively unwieldy. If there are long delays in the finalisation of land claims and the release of land for redistribution purposes this will reduce the land available for development and slow progress in the implementation of the project. The conclusion of the process to consider expropriation without compensation in a manner that protects property rights and security of tenure would spur on the project. If this is not achieved the project would be seriously compromised.

(iii) Implementation risk

Even when investors are found and agreements are made to develop land acquired under the land reform programme these developments remain subject to land development procedures applicable to all development projects in order to move to implementation. Particularly in the case of Greenfields Projects (which have the best chance of attracting new investment and creating new jobs) government approvals can delay implementation. This may include environmental impact assessments, approvals of sub-division under the Sub-division of Agricultural Land Holdings Act and zoning approval.

10 Risk mitigation

What should be done to mitigate the identified risks? Which stakeholder would be responsible for the risk mitigation activity?

Risk mitigation measures fall into two categories:

(i) Project specific risk mitigation

The model on which this proposal is based was designed as a risk mitigating mechanism to encourage private investors and new land owners in the land reform programme to establish partnerships for the development of land. Risks are lowered for these parties by providing independent transaction advisory services that allow the parties to enter into negotiation for the development of land at no cost to the parties involved. The project carries the transaction cost. The transaction advisory fees are only payable on conclusion of a successful transaction. This helps to mitigate investment risk referred to above. The project managers and funders will be responsible for this risk mitigating activity.

(ii) Operating context risk

The land reform and implementation risks referred to above are generic risks which must be addressed by the public agencies responsible for maintaining an operating environment in which development can take place. It is anticipated that these risks will cut across most of the proposals considered by the Jobs Summit. In particular the expropriation without compensation debate must be concluded speedily in a manner that provides certainty to potential investors. The administration of the land reform process must also be improved if this is not to be an impediment to many prospective job creating initiatives.

11 Additional comments

This short concept note prepared in the limited time available seeks to present an idea that may be of assistance to the participants in the jobs summit. The essential idea is that:

- If jobs are to be created, job losses associated with land reform must be reduced and the potential for attracting new investment by the release of land for land reform purposes must be increased.
- In order to achieve those objectives, private investment must be attracted to support, the land reform process.
- A mechanism has been suggested for attracting private investment to well-structured partnerships between new land owners and investors that lowers the risks for the parties involved
- Some preliminary assessments of costs and employment impact have been provided which would be refined if a full proposal was required.

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