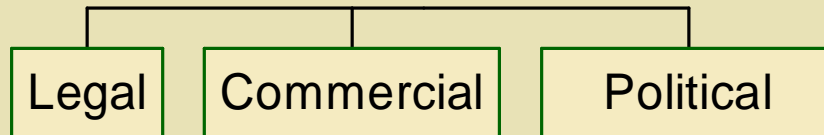




- Dr. Izak Labuschagne is a Strategic Planner with a project portfolio history of over R3 Billion Rands most of it in the agricultural sector in the SADC Region.
- CEO of SADC Development Fund Trust
- CEO John's Walk Project Swaziland
- CEO Group One Project Northern Cape
- On the board of various other corporations, companies, trusts and institutions not relevant to Agriculture
- Australian certified investment planner
- Member of International Financial Planning Association
- Principal of the Commission of Inquiry into Administrative Irregularities in the System of Justice and Activities by Members of Secret Societies
- Honorary doctorate in Ecclesiastical law (Arlington University Australia) based on a thesis made up of the legendary Bible case of 1996 which case he represented in the public interest and as such in the Constitutional Court of South Africa



Strategic Realities



These realities need to be balanced. If not the project is doomed to fail. The 100% record of failure in South Africa's Land Reform Agricultural development projects is due to the imbalance created by too much political activity in the sector.

- There needs to be proper balance and synergy in respect of these realities or a project will be at risk of failing.
- To attract investors, these realities need to combine into a hit record so to speak.
- The order in which realities rank is generally from left to right if it is a constitutional state.
- Political reality ranks first in dictatorial regimes
- Commercial reality ranks first only in accounting firms.
- The Legal reality in respect of land reform in South Africa is tenure right based, i.e. occupation of state or other land for more than 10 years gives rise to title. Many statutes, gazettes and state policies provide for the transfer of title ranging from the rural areas acts, tenure reform, land reform, restitution and community development. There is a reluctance by South African Government to give effect to these acts however, the main (spurious) reason cited being that the beneficiaries are not ready to take responsibility for the land unaided by the state yet.



Commercial

- W Agriculture is *generally* a high risk (Gambling with weather) low return sector
 - ROI for local markets - Livestock 3 – 7 %
 - Crops 7 – 10%
- W Intensive farming- Operator/Mentor on irrigation / tunnels / breeding program - add 5 - 7%
- W Value adding - like a pack-house or factory add 5-10%
- W Exports to niche markets –add another 10-12%
- W Bank interest from 12% for IS or implements to 15% for crops. Gearing up to 90% (?)

- As a result of this scenario The Land Bank of South Africa will only finance 50% of capital value.
 - For Black empowerment companies it and the IDC will finance up to 90% or more.
 - The commercial banks do this and it is a recipe for disaster.
- Agricultural projects ideally need to have a huge critical mass so as to absorb the high capital costs of infrastructure development and maintenance.
 - The Kalahari Kid project is a R 900 mil project,
 - Goodhouse, for 55 farmers is 55 Million and a further 82 Mil embodied in a factory. LRAD Planning grants of R 100,000 per farmer were used and a 20% shareholding was acquired for the farmers by the government in the factory to lessen the gearing ratios in the project.
 - The Douglas project comprises a 62 million IS development on top of a R 20 mil acquisition of an already highly developed farm.
 - The GDP project was pegged at R 870 million but will in all probability be reduced because of low productivity levels, even in the KibbutzSA system where production levels is enhanced by shareholding and profit sharing.
- Exporting berries from the Southern hemisphere for example is a totally untapped market and it will without a doubt produce these types of returns.
- Organic produce has a 31% deficit with regards to supply of demand in the EU. Most of the virgin soil needed for this is available in the 3rd world.
- The gap between the bank interest rate and ordinary farming ROI is



Legal

- W RSA Rule of law = constitutional state and most state policy stems from International Law and treaties
- W Swaziland Monarchy – Rule of Law does not bind political or commercial action
- W Zimbabwe Rule of law influenced by domestic political policy
- W Other 3rd world states have various cocktails of these extremes

- RSA – e.g. International loans conditional on the installation of a proper democracy to replace the apartheid system
- Swaziland – e.g. 10,000 hectares of prime land in Swaziland and a Dam project that was destroyed because the King interfered with High Court Orders consented to by all the relevant members of his cabinet.
- Zimbabwe – Mugabe is beneficiary to political and legal reality but there is no commercial reality attachable to his policies and therefore he will probably lose his grip on the first two realities.
- It is crucial that this “cocktail” is properly and accurately defined and identified before even remotely considering an attempt at investing in the agricultural sector of the 3rd world.



Political

- W National Policies – many are derived from International treaties focus on rural sector for poverty alleviation giving rise to land reform or development policies
- W If a social democracy then national interest supercedes public and private interests
- W Statutes, Gazettes, Official Government Policy
- W Unofficial Policy – underlying factors, political needs / objectives
- W Resultant strategies

- In South Africa there are three divisions in the land reform policy; - Restitution of land through land claims, transformation of rural areas held by the state, tribal or aboriginal land claims.
- One must also consider how these policies are affected by different schools of thought in the political arena. For example processes have been delayed because land affairs officers and agencies that have far leftist political convictions have manipulated the laws and legal processes to try and get land into the hands of local councils instead of the land claimants themselves with the result that these types of projects and those dependant on CPA's generally fail.
- A proper study of, and subsequent contextual inclusion, of the policies as they emanate from the international treaties as well as from the resultant legislation, backed by warranties guarantees and proper securities can go a long way to negate such risk factors.
 - Designing the project as a PPP (propagated by NEPAD) with the private sector remaining in control until sustainability is proved is a good idea.
- In a social democracy the flow of policy and command is from central to local government. Policy is arrived at through indirect representation and is therefore dictated by the ruling party and not directly by any segment of the electorate.
- It is crucial to accurately ascertain the complete nature of the consultative processes in 3rd world countries. Even in dictatorial regimes, it is sometime fatal not to first consult with the local community.



Potential

- W NEPAD Policies, primary industry = engine for growth
- W AGRI – IS initiative
- W Emerging markets in reconstructed countries
Angola – DRC. Others like UGANDA, Zambia
Madagascar.
- W South of Equator,
- W Emerging Organic produce market
- W Satellite technology
- W Crop Insurance

•It is generally accepted that Agriculture is the engine for growth in the third world and the first step in poverty alleviation. This is confirmed by the policy statements of organisations such as SADEC, NEPAD, COMESA, AU and world bank.

•The Agriculture – Infrastructure initiative (AGRI-IS) is born out of the NEPAD policies. It recognises that African civil engineering companies need to get involved with Agricultural projects so as to critical mass and orderly continuity in IS deployment in and around the projects. This initiative is in abeyance because of a lack of credible agricultural project managers and operators, accessible crop insurance, a safe public sector involvement and proper political risk management.

•In Countries where the reconstruction process is stabilising the potential is enormous. Repair to IS is paramount and this lends further impetus to the AGRI-IS initiative. Local markets are often huge.

•Being South of the equator enables one to supply huge 1st world markets in their off season. It is 2004 (some 300 years after meaningful development in these regions) and it astounds me that this potential is still largely untapped.

•The organic demand supply deficit for the 1st world is running at 30%. Organic soil certification in Africa is so much easier than in the EU, UK and USA. Conditions are ideal and it is south of the equator.

•Satellite technology is still too expensive. The security issue (abusing technology for criminal or military purposes) is also still unresolved.

•Most crop insurance today is geared out of a futures market. Actuarial assessments based on management intensity, the planting of seedlings, irrigation, climate, monitoring and track record is hopelessly



Underlying factors

- W Fear – Commercial colonialism - FDI's will foreclose on titled collateral.
- W Cost of development higher than commercial realities can handle therefore need for PPP's.
- W Pressure to acquire developed properties
- W Age old adage – control the land – control the politics of the occupiers.

- Governments fear that Foreign Direct Investors will take the land as collateral for crop establishment costs and then foreclose, thus taking over title from the local occupiers and perhaps even evicting them from land. Land traditionally held by the indigenous population for centuries. This is a legitimate fear as asset based finance for implements and infrastructure usually uses the asset as security. Crop establishment costs and project operation costs is another matter however.
- On average the cost of setting up irrigation infrastructure for land is usually 3 times the value of land. That is why one needs Public sector donor input, especially where the IS needs to be deployed from scratch.
- That is why the acquisition of already developed properties is more attractive and why the focus invariably shifts to that as a strategy.
- That adage of controlling the politics through state land ownership is as old as history itself and as persistent.
 - In this presentation I will use Goodhouse project as case study. Goodhouse clearly manifests the latest techniques being used to facilitate this



Resultant strategies

- W Engage experienced operators as mentors
- W Cause project failures
 - Loaded costs - Gearing too high
 - Import gov supporters as workers (political and labour activists) to project labour and political unrest – production and crop failures
 - Alienate real farmers
 - Undermine operator
 - Brainwashing through training seminars
 - Stonewalling
- W Goodhouse case study

•The government uses experienced operators with a good track record on their own operations. These are then teamed up with operatives in government departments and state subsidised training organisations. These operatives load the project to get huge fees up front and on contingency, allow the state to intervene and destabilise the project and then retire from the project saying that the beneficiaries or occupiers of the land are not yet ready for such a project. When the project fails the government simply aver that they gave it their best shot as they used the best operatives available..

•Examples are Goodhouse where the LRAD Planning grants exceeded the LRAD payments made etc. In Goodhouse the government's operative alone was taking R 200,000.00 per month on a 350 ha project whilst he paid an extra R 200,000 to other government supporters and operatives. The operatives that failed in Goodhouse have now been mandated by the state to intervene in a cotton project in the Eastern Cape. Why? The project has every prospect of success and if it does succeed then the government will have to transfer the land. Transferring the land means losing their political grip on the occupiers. So they send in their hit squad under the guise of diversifying the project, supply the best management control and the best training (manipulation) for the beneficiaries and

•This has happened in Goodhouse Giyani, Makatienie flats, and many many more.

•Goodhouse examples – the real farmers are underpaid and the political activists overpaid. These “mistakes” are then never corrected.

•The operator reverts to government at the slightest sign of trouble – who use opportunity to take over the project.

•This is legendary – see Goodhouse project proofs.



Reaction

W Major mistrust of Government

- Beneficiaries
- Planners

W Mandates to develop without Government or with Agreements constraining intervention

- Goodhouse Kabis, Abbassas, Giyani, Rust de Winter

- This was inevitable. One wonders what the strategy is to deal with this.
 - Examples; - Goodhouse, Kabis, Abbassas, Witbank, Giyani, Rus de Winter, KZN (see article of Ezra Steenkamp)
- Refer to Mandates as examples.



Secondary Strategies

- W** Polarisation of agricultural communities internal and external
- W** Pressure on commercial farmers through tenure claims land invasions
- W** Justification by government to expropriate
 - the cheaper option
 - African political strong man strategy
- W** Perpetuation of control because “beneficiaries not yet ready to farm without government intervention”
- W** Instead of across the board subsidies as in 1st world

- The most startling aspect is the governments resistance to fund BEE beneficiaries in willing buyer willing seller scenarios eg. Douglas project.
- Their reason is that they do not want LRAD funds to benefit the previously advantaged in any way! Apart from being in breach of state policy it is an absurd reason driven by racism.
 - Funds mysteriously disappear (see IRIN Article)
- Instead activists are focused onto commercial farmers.
- The expropriation bill is positioned to activate because “all our best effort at land reform have failed”. This was made clear by AU at its inauguration.
- The playing field is dangerously stacked against the existing commercial farmers as well as the genuine BEE tenure right holders.
- In the mean time the drive to harrass the commercial farmers simply intensifies. Instead of creating a climate of trust and thereby generating scenarios where farmers voluntarily give workers shares so as to up productivity, the issue is forced through statutory regulations.



Solutions

- w** PPP with political risk securities. Agreements reduced to orders of court providing for immediate Magisterial interdicts against interference.
 - “Project could not start without Govt” – “an ANC project” etc.
- w** Funds handled by a-political commercial entities
 - 1% handling fee for 2% due diligence 1% raising of other investors etc. 3 – 4 % soft loans adding commercial reality. Payments.
- w** IDC (?) Land Bank (?) IFC (?) Local Co-Ops established by farmers BEE under existing Co Ops.

•As a result of the aforesaid, agreements that antipiate government’s insurgence into projects now need to be installed and heavy handed judicial instruments are needed to maintain investor interests.

•Government funds need to be channelled through a-political commercial entities as an insulation against political manipulation and so as to negate the further proliferation and escalation of unacceptably high political risks in agricultural projects for the previously disadvantaged in the land reform program.

•The Land Bank is becomming more and more of a tool of government. The other day I was told by a senior Land Bank Loan officer that a new application for Goodhouse is at risk because of political intervention. What this means is that the Land Bank has lost the independance guaranteed it by Statute law.

•Independant BEE Agricultural Co-Ops or BEE sectors in existing Co-Ops can handle these funds far better, especially with the mentoring of the existing co-op management.

•The problem here however is the heavily government supported drive by some large agricultural entities to take over all the existing co-ops. The new agricultural mafia backed by large BEE injections from players in other BEE industries (such as oil and petrolium) is fast becomming the new menace to orderly development and a tool with which to perpetuate the political intrigue.

•The South African government has more funding than it’s neighbours to arrive at the same results as in Zimbabwe (which is not opposed by RSA) and so it is able to arrive at the same results with far more finese.



Solutions 2

- W** Proper incentives for bona fide operators working on profit share basis with 5 year shareholders agreement and exit strategy
- W** Realistic access to satellite technology. VSAT GIS and other monitoring systems.
- W** Access to non SAFEX (cartel) geared crop insurance.
- W** Govt to take responsibility for minimum price regulation – Currency policy adjustments Agri is engine remember!
- W** Real un discriminatory Access to LRAD funding for willing buyer willing seller etc. – eg Cilliers farm.

- A 74 /26% ratio is ideal. Show latest Group One spreads as an example.
- Pooling the satellite technology under a Co-Op for a lot of farmers solves not only the security risks but cost factors as well.
- Someone needs to set up a properly negotiated brokerage. Why can Sanlam not do the actuarial R&D for this?
- Use Cotton as example. SAFEX is selling the same crop many times over and keeping the margins.
- At the moment this is conducted with government agents only who will deploy cost over-loaded projects (huge management fees- see Goodhouse) booby trapped to fail.



Solutions 3

- W** Communication
- W** Rationalise gearing blow outs on current farms in trouble through Buy Outs. – regulate banking practice on gearings.
- W** Control exploitation of government relief – burning land etc.
- W** Stop pressure on commercial farming harming BEE projects too. Stop genocide

- The stonewalling is atrocious – use examples Goodhouse. Court orders Judges too afraid to make “political judgments” 2/3 majority and judges independence affected by bias use of section 177 of the constitution act.
- Management buy-outs are a real solution to these farmers who were tricked into demise by gearings which are criminally (explain ethics) high. The funds are mysteriously missing though (refer article by IRIN).
- Many stagnant projects are enticed to burn land and claim disaster relief. Criminal charges against farmers when stock is planted on their properties to incite racial tensions.
- Use Dirk Mouton’s example of farm rental and 10% gross deal.
- Pressure on commercial farmers also affects BEE projects as the same market indicators (cost/sales) apply
- Why the discouragement of AGOA?
- Access to funding is extremely laborious.
- Finaciers what security re political risks. These are not proffered (Use latest correspondence as example).
- Farm murders have been labelled genocide by UN investigators. The denial by government is quite ridiculous by now. The media is used by government to resent a bias picture.



FDI Securitisation

- W MIGA for FDI's – but the process is time consuming and laborious
- W PPP's where the agreements are tri-partheid with Public sector, Private sector (retaining control through say shareholders agreements) and beneficiaries who provide land as collateral for security.

- Like all of the World Bank's structures, MIGA's processes take long (some 365 days) and the process is obviously laborious because of the political implications. If the project cannot absorb the processes or the time taken then it should consider other additional ways of securitising its risks.
- Governments and lending institutions do not generally provide securities.
- The Beneficiaries end up providing the land as collateral to the financier as security and that leaves the private sector partner who has his reputation and market at risk out in the cold.
- The best he can do is build security into a shareholders agreement backed by a system of performance guarantees and non-performance penalties.
 - For example if the beneficiaries and the public sector collaborate to make life difficult for him in respect of proper control over the project, he can build instruments and legal clauses into his tri-partheid agreement, as well as into structures like the trust and operating company, through which he can acquire a greater shareholding or profit share or both. This is not ideal but the best one can do in the circumstances.
- The need for localized PPP funds to secure these risks is dire despite the fact that such a fund stands to make a lot of money for the investors. This is an avenue which has surprisingly been overlooked by many PDI's and Aid Agencies.



Current Investment climate

W Affected by Land Reform in SADC

- Zimbabwe – Mugabe as VP of AU
- SADEC asked for sanctions against Zimbabwe to be lifted
- RSA 30m ha not transferred yet, 5 Bil. unallocated, most projects failed, farm security lowest of anywhere in world, new system sustainable and could be applied for management buy outs

W Mozambique – Zim expat farmers flourishing, corruption levels transparent and manageable

W Rest of Africa has projects but levels are very low

- The appointment of Mugabe as VP of the Au has sent danger signals to most FDI's. It is generally felt that a hidden agenda in line with Mugabe's policies is harboured by AU leaders otherwise he would not have been elected and the silence with respect to appropriate condemnation for his policies would not have been in evidence.
- The Land reform issue is heated in RSA.
 - The far left want the land grabbed now because they say it has not been implemented fast enough.
 - They also want the local councils to control the land and make inflammatory claims as to how land was acquired by whites .
 - The far right are asking why nothing is being done about the genocide on white farmers and why they should be expected to give up their land when
 - the government has not yet transferred all the government held land to their beneficiaries
 - and when the government seem unable to apply their funds for the purchase land currently offered by white farmers;
 - All whilst all the land reform projects to date have failed
- In the mean time several moderate leaders in government are wanting to pursue models such as those I have discussed in order to get the process on a stable footing.
 - Was it not that the KibbutzSA system turned out to be a front for the government's clandestine strategies it could have presented golden opportunities for FDI's,



Crucial factors

- W Clear invitation and proper mandate from real beneficiaries
- W Proper and workable relationship with national, provincial and local government
- W Extensively researched legal structure referencing specific legislation state policies and backed up with warranties guarantees and securities
 - Shareholders agreements that guarantee and secure control until sustainability is proven so as to protect markets secured by reputable high tech operator
- W Compensation for 3rd world related deficiencies with respect to productivity time and corruption

- Specific disclosure of the systems used in most of these aspects will result in breached of confidentiality and intellectual property agreements.
- Getting these aspects right takes time effort and most of all experience. Paying for the right consultant to get this right in your project is crucial. Pick consultancies that have put the runs on the board and can them running instead of fading out.
- Interpersonal relationships between the project initiator, his management, the beneficiaries and especially the public sector plays a huge role and this aspects needs to be based on a clear and firm foundation backed up by the right security measures otherwise the parties will split apart.
- Remember too that this is not Europe where you need to plant in spring or starve and make no profit for the luxuries you desire. For generations people plant when they will here and for subsistence only, so time, productivity and profit is not so much of the essence. How to build this into your projections, how to optimize the situation and forecast the rate of change because of the effects of profit sharing and the risk of losing the land as collateral is a specialized field most people ignore entirely in project proposals.
- These are the ideas. Getting them into a format acceptable to all parties and in a way which is enforceable and workable takes time effort and experience.
- Consultancies need to specialize. The days of the consultancy that operates in all sectors is numbered.
- Farming is not for wimps, commercial political, legal or otherwise.



Reasons / Needs for Investment

- W Without the Agricultural sector we will all starve
- W Poverty is vested mainly in the rural sector.
- W Dependency ratio is 1 in 12 in this sector
 - Massive political impact
 - Massive commercial impact
- W Massive potential to supply 1st world in off season
- W Cost of production generally much lower

- Reference to examples in MS Word format of the Goodhouse and Douglas projects will be made here.
- Few people realize that the political implications are a trigger for significant investment by the public sector.
 - How many Aid Agencies have focused their efforts at bringing about positive political development in this manner?
- Whilst the IDC have just recently stressed this, the synergy for the development of other projects created by the emergence of a substantial agricultural project seems also to be generally overlooked.



Issues needing attention

- W 1st world subsidies.
- W Land Reform policies.
- W Unrealistic criteria of FDI's, Aid Agencies and other investors.
- W Proper funds for allocation of tax deductible funds in 1st world.
- W Provision of localized Securities to back up guarantees from public sectors.

- Rather than complain about these subsidies, 3rd world regimes should introduce their own incentives and subsidies for this sector.
- At the end of the day though, all that matters is quality and price, quality demanding a higher price.
 - The possibility of producing superior quality in the third world has always been there.
- The perceived hidden agenda underlying these policies in SADC are in plain language, ugly, and something really effective needs to be done to waylay this perception or there will be more storm clouds on the horizon for currencies in SADC monetary areas.
- Unrealistic criteria for investment in the agricultural sector is legendary and it ranges from the usually too conservative to criteria that is too heavily geared.
- There is a lot of money aimed at projects in the third world that has been returned to the 1st world because it was given to the wrong people to manage. This includes money given to governments, aid agencies and special funds set up for those purposes.
 - Funds entering the country for this purpose needs reserve bank approval and in most cases that approval is conditional on there being proper criteria set for the distribution of the funds. In most cases commercial banks are chosen for this role and because of the kind of criteria they adopt no projects are passed and the money is sent back.
- Some 1st world countries like Canada even offer tax incentive for investments that fulfill certain demographics in the third world, yet the expected investments have simply not occurred.



Consensus

- w** The consensus with regards to these findings is widespread
- Organised Agriculture
 - Members and directors of many Co-Ops
 - Most Financiers
 - International community,
 - IRIN,
 - Officials in commodity organisations such as Cotton SA;
 - Political risk underwriters
 - Project managers (who have the sense to stay clear)

- This consensus exists for all the reasons given in this presentation.
- That is why assurances are sought by operators and financiers alike before committing to BEE land reform projects in the Agri sector.
- The statistics are overwhelming in support of the clear manifestations of what the government thinks is a well disguised strategy.



Challenge

- w** The main questions are: -
- **Will anyone have the guts to face this head on and do something about this?**
 - **Will the stated policies of NEPAD remain an elusive dream?**
 - **Will the third world ever remain dependant on the first world?**

- These questions speak for themselves.
- Will you speak out?
- If not many more will starve as they do in Goodhouse on costly infrastructure today.
- Where are the humanitarian organisations –(refer Rev. Dr. Jack Stagman letter from USA)



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Please bear in mind that my health is increasingly unreliable. So be patient if there is no immediate response. I might simply be unable to respond.

Many Thanks