**Brexit could hit agri’s development agenda**

TP Nchocho, CEO, Land Bank

The Brexit vote, which left global markets poorer by over US$2 trillion in the wake of the referendum, is expected to bring major shifts in the international development finance landscape. Access to development finance is a crucial instrument for the growth of the sector, food security, poverty alleviation and mainstreaming marginalised populations.

Dependence on foreign aid has greatly waned in emerging markets and has been replaced by increased quantum for development finance to cater for debt and equity financing and weather related risks.

Historically, lenders have shown little appetite for the risks associated with agriculture. Lending for investments in agriculture especially for small and emerging farmers is scarce on the continent. According to the International Finance Corporation (IFC), less than 1% of commercial lending is destined to the agriculture sector.

The poor understanding of agricultural sector’s risks and opportunities deprives it of much-needed funds to drive the economic prospects of the participants. In South Africa, there are approximately 450,000 small and emerging farmers whose main activity is agriculture.

Access to credit empowers small farmers to participate more equally in the agriculture value chain. Mainstreaming these new actors in the value chain will promote inclusive growth and is critical to the success of transformation.

As a development finance institute (DFI), Land Bank constantly engages with various multilateral agencies across the European Union (EU). With the EU now staring at a precarious economic and political future, development finance flows may diminish as the gap created by UK’s contribution becomes apparent.

Brexit has forced challenges at best and newer risks at worst.

In the wake of Brexit, we should all be concerned about potentially more expensive development finance. With Britain out of the EU trading bloc, capital supply could become more volatile as investors seek more secure investments. Furthermore, when funds do become available they will typically be more expensive as investors require higher compensation for assuming higher risk.

In this context, the strategic imperative of domestic financial resources cannot be overstated. A well-functioning agricultural sector needs domestic funding to ease volatility that impacts a farmers’ ability to contribute to the country’s food security and his/her own financial well-being.

Against the backdrop of turbulent global economy and slower growth at home, we had already begun implementing our new sustainability strategy and a diversified funding strategy was one of the critical areas. We trust the new business model and plans to work closely with the government will ensure normalcy until the financial markets stabilise following Brexit.

The Bank continues to attract new investors and has increased exposure through diversifying its sources of funding and instruments. The Bank is confident that it can continue expanding and diversifying its investor base to support the operations.

Rating agencies S&P, Fitch and Moody’s have unanimously downgraded Britain with S&P issuing a warning that Brexit will lead to “less predictable, stable, and effective policy framework in the UK” and hurt growth. This uncertainty generated by a decision to leave the EU is likely to force Britain to focus more on domestic investment.

As such, investors may be urged, incentivised or forced to prioritise local investment. In face of a “domestic first” strategy – the biggest losers might be those that depended on Britain’s development support.

When the debate settles, South Africa may find itself in a good position to negotiate better terms for its trade in agricultural goods and other natural resources given the importance of these commodities to the UK. Even though these negotiations will be protracted, it is imperative that our government, in the interests of the sector act fast and decisively to improve the future trade relations with the UK.

South Africa needs large investments in agriculture for accelerating inclusive growth aimed at mainstreaming small and emerging farmers. Given the constraints arising from Brexit, DFIs and state owned entities (SOEs) are likely to face challenges in raising capital crucial to the delivery of their mandates.

(Ends)