**Surging demand for concessional loans hints at growing drought distress**

**Bothaville, South Africa – 18 May 2016:** The demand for Land Bank’s recently announced drought relief concessional loans which the state-owned, specialist land and agricultural bank raised from the Industrial Development Corporation (IDC) is surging as the record breaking drought conditions continue to cause widespread devastation to agricultural crops and livestock.

With five out of the nine provinces declared disaster areas and certain areas within the other provinces declared disaster zones; farmers in these provinces are clearly showing signs of distress if the demand for loans is any indicator.

Speaking at a forum on the sidelines of Nampo Harvest Day 2016, Sydney Soundy, Executive Manager, Commercial Development Banking said, “Currently, Land Bank has received applications for loans amounting to just under R200 million.”

“While these applications have not been approved yet as they are still going through the Bank's assessment, due diligence and will be granted in accordance with applicable legislation such as the NCA, the demand gives a glimpse into the bleak future," Soundy says.

Earlier this year, Stats SA released gross domestic product figures showing three consecutive quarters of steep decline in agricultural activity. In the third quarter of 2015, the sharp decrease was mainly a result of falling production in field crops, such as maize, sunflowers and sugar cane.

As yields of these crops shrivel under the dry spell, they will more than directly impact on food prices and are more than likely to be passed on to consumers. According to Stats SA’s Consumer Price Index, South African consumers paid approximately 10% more for the basket of groceries in March 2016 than they did in March 2015.

This rise is the highest monthly year-on-year rise in food price since February 2012. Food inflation has followed an upward trend since November 2015, with year-on-year figures of 4.8% (November), 5.8% (December), 7.0% (January), 8.8% (February), and 9,8% (March).

The drought will not only affect the current production season, but might also have long term debt implications for farmers. Their inability or unwillingness to plant does not augur well on crop yields, their own financial fitness and could contribute to food insecurity.

“As farmers across the country begin to weigh their options and consider planting for next year’s crop, ensuring they have access to low interest loans to sustain and build their farm is absolutely critical.”

“These concessional loans are understandably not the silver bullet but rather aimed at supporting the farmers to overcome the immediate challenges of the drought and ensure that long-term agricultural production, growth and food security is safeguarded by keeping him / her on the farm,” adds Soundy further.

The loans can be used as a source of emergency working capital to minimise further losses to current farming operations, carry over debt as well as to repair and replace weather damaged property and equipment.

“The low interest loan recognises that the financial impact of drought continues even after conditions improve and provides the farmer with much needed liquidity. The sooner capital injection is made, the quicker the potential to recover".

“On our part, we are encouraging farmers to apply for the loans so we can put cash into the distressed hands and cushion the impact of the crippling drought,” Soundy concludes.

As one observer keenly put it, “The only way we can recover is to plant ourselves out of the drought.”

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