

## special report SA in 2018

### AGRICULTURE

# High risks and a harvest of plenty

Good rains have benefited production, but challenges, including land reform, remain



Marcia Klein

● The most recent GDP figures clearly point to an agricultural sector on the ascent.

Reflecting partly recovery and partly growth, the sector grew 44.2% in the third quarter of 2017, its largest quarterly jump since 1996, providing the main impetus behind the country's 2% GDP growth. Stats SA cited increased production of field crops and horticultural products. The latest season's maize crop is expected to be the largest on record.

But though rain in many parts of the country led to record maize crops, the sector has many challenges. Low economic growth, depressed consumer confidence, inflation risks with an exchange rate under pressure, increasing unemployment, livestock disease, drought conditions in certain areas and high costs of funding are all red flags.

The outlook for the next few seasons is for good rainfall in the northern parts of SA, which is positive for grain products, staple food prices and input costs like feed for livestock, says TP Nchocho, CEO of the Land Bank, which lends to the agricultural sector.

However, the effect of the poor conditions of previous years lingers. "In the North West, farmers are grappling with the debt hangover of the drought and some livestock farmers are rebuilding their stock. We can still expect substantial increases in the prices of beef and lamb due to limited animal stock in the system."

The Western Cape, suffering from drought and inadequate water infrastructure, remains a high-risk area, says Nchocho, but some of the export-producing farmers, though based near Cape Town, have farms along the

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TP Nchocho

Orange River and are doing well, while several others have mitigation measures in place.

"On the back of the recovery of livestock and river systems benefiting from rainfalls, we are optimistic that demand for production credit will continue to rise," says Nchocho. There is also growing demand for equipment finance.

Less easy to forecast are sectoral developments such as growing the emerging farming sector, access to funding and political issues around the ownership of farm land. Land reform remains a sticking point, with the land claims process grinding along slowly.

In terms of private land finance through mortgage finance, land transactions in the private market,



and asset finance, black farmers have access to special mortgage finance facilities through the Land Bank, at about 100 basis points below prime. About 1,500 black farmers have been helped with funding of R100m in the bank's prior financial year. Nchocho expects growing demand for funding as consolidation happens in the sector and black farmers buy additional land.

Despite the downgrades, the Land Bank remains well funded, says Nchocho, and it recently placed a bond to raise R1bn, which was oversubscribed. Loan facilities carry a price-up clause should there be further downgrades, and this could mean the difference between profitability and bankruptcy for small farmers, Nchocho warns, so this is a risk for the sector in 2018.

About R5bn of the Land Bank's funding comes from international development finance institutions, where prices are fixed, and it is these lines of funding which are mainly tapped into to finance the emerging sector. The Land Bank considers land reform "a pressing imperative", says Nchocho. "Unfortunately... the land reform programme has not been successful. At best, maybe 10% to 20% of land reform projects are working.

"In organisations such as Afasa [the African Farmers Association of SA] and AgriSA [an industry association] we see high levels of willingness to co-operate and make

land reform successful. But land reform is not just about commercial aspects. There are also social issues and the political capitalisation of these social and psychological dynamics of land reform," Nchocho says.

"We want to undertake land reform on the basis that productivity and output is sustained and that land reform cannot undermine food security."

The Land Bank has a dual mandate – to serve the existing commercial agricultural sector as well as the emerging developmental sector. Its share of the agricultural debt market in SA is just over a third. But it remains one of the only options for small black farmers.

There could, with government's willingness and financial ability, be opportunities to provide further funding for farmers through the department of agriculture's Phakisa agriculture initiative. It was recommended last year that government, the Land Bank and the banking sector increasingly use blended financing by combining loan finance with government grants, and Nchocho remains hopeful this could materialise in 2018.

Farming insurance will continue to be an insurmountable obstacle for many farmers.

The Land Bank has proposed a national insurance subsidy scheme for the agricultural sector, where every farmer is subsidised by government for risk cover on a sliding scale, but there is unlikely to be implementation in 2018. x