

PROFILE



A GOOD HARVEST

Enabling the transformation of SA's agricultural sector is core to Land Bank's mandate, says its CEO Tshokolo Petrus Nchocho
By Kerry Dimmer

Lately, farmers have been going through a tough time. They have had to contend with the dry Western Cape conditions, a slow recovery from bird flu outbreak, low international commodity prices and a fluctuating rand impacting the export markets. So it's no surprise

that the agricultural sector has decreased by 24.2%, double what was anticipated, according to Stats SA.

For emerging black farmers, it's a particularly difficult challenge but not one that can't be overcome, given Land Bank's existence. Its main directive from government is to provide finance for emerging

farmers in pursuit of the equitable ownership of land, agrarian reform and land distribution; removal of the legacy of past racial and gender discrimination; and the promotion of food security and support of commercial agriculture.

'Transformation is a critical part of Land Bank's mandate,' says its CEO,

190

PROFILE

'We're working to mitigate this risk by bringing in commercial farmers to partner with emerging farmers, and other intermediaries who provide business management support'

Tshokolo Petrus Nchocho. 'We fulfil this mandate by providing a range of innovative financial products and services, designed to widen access to, and participation in, the sector for new-generation entrants. But, because funding is not the sole catalyst for growth and transformation in the sector, there are a number of key elements that must work synergistically.

'This is why much of our energy is dedicated to working with our key partners in government, such as the departments of Agriculture, Fisheries and Forestry, and Rural Development and Land Reform, to find solutions for new entrants,' he says.

There are several factors that are considered hindrances, which Land Bank is working to overcome with its funding approach. One is access to land, as there are no secure, long-term rights to land. Then there's inadequate access to equity, which restricts new entrants because they generally lack sufficient equity to contribute to the financing of the agri-enterprise, leading to undesirable debt levels for sustainability and repayment ability of the enterprises.

Another challenge is access to collateral, given that most of the new entrants do not own property and assets with which to back up their debt exposure. 'We're working to mitigate this risk by bringing in commercial farmers to partner with emerging farmers, and other intermediaries who provide business management support.'

Fourth on the list is a lack of technical assistance and, while being addressed by the intermediaries and commercial farmers

who can pass on their experience of farming at scale, this must be ramped up. Finally, the challenge of access to markets, and how to create those for emerging farmers, remains a priority.

Nchocho emphasises that overcoming these transformation challenges is critical to the sustainability of the agricultural sector. 'We acknowledge that the pace of transformation has been slow, and that more has to be done.'

This is why Land Bank is working to grow its total transformation loan book, cumulatively, to 30% over the next four years, from 11% currently. While it does support the entire agricultural sector, be it commercial or emerging farmers, or agribusiness, Land Bank's current core funding focus is on facilitating transformation and inclusivity in the sector.

'Currently, Land Bank supports some 1 500 black farmers, many of whom have benefited from the interest rate subsidies that the bank provides, totalling R100 million last year. Over the past two years, Land Bank has increased lending to emerging black farmers and agricultural development enterprises to R5 billion from R2.5 billion,' says Nchocho.

There is a common misconception that Land Bank has access to grants for emerging farmers. 'We raise financing to support transformation on the debt and capital markets. We do not receive direct funding from the government apart from capital-raising guarantees. As such, all funding raised, and through which loans are disbursed, must be

PROFILE

'It will effectively kick-start new agricultural enterprises, and facilitate more inclusive and equitable access for black people, women and the youth'

paid back to creditors and investors in accordance with applicable conditions to ensure Land Bank's sustainability.' To determine a loan's viability, Land Bank assesses each application on a case-by-case basis. Certain criteria have to be met, including compliance to FICA and a viable business plan.

One such initiative that highlights just how valuable partnerships can be is the Ndwandwa Community Trust in Mpumalanga, which is supported by Land Bank. The trust acquired 29 farms totalling 9 800 ha through successful land claims in 2003. After the transfer of the properties, the community faced challenges in getting farming activity going on the land.

They approached Land Bank and their funding application was approved. The project has been phased for production input costs and the construction of silo and storage units. The first phase saw 555 ha of land coming under production, comprising 340 ha of maize, 110 ha of soya beans and 55 ha of dry beans. Subsequent phases will see production expansion on more land.

'Ultimately, Land Bank's support has served as a catalyst to bring more of the land under production so that more beneficiaries are able to participate meaningfully and reap the rewards from it,' says Nchocho.

Land Bank aligns to five strategic development objectives to measure the impact of its financial assistance: transformation, sector growth, employment quality, food security and sustainable development.

'We have developed a set of indicators for

each objective, consolidated into a development impact-assessment tool, which is applied to all transactions to establish the potential level of development impact of the financed transactions,' says Nchocho.

'Agricultural finance has a significant knock-on empowerment effect, such as more land coming under production; transformative ownership structures; job creation; a transfer of essential technical farming skills; and the graduation from small scale to commercial scale.'

Land Bank is exploring the potential of establishing an enterprise development fund for emerging farmers, as a means of ramping up access to funding in the sector. 'With a lack of security being one of the main barriers to accessing financing within this sector, we believe that a mix of grant funding and mainstream financing is one of the ways to address this issue,' says Nchocho.

'The greater alignment of programmes between stakeholders responsible for growing and transforming the sector, including government, developmental funding institutions, the private sector and key agricultural sector players, can manifest in the creation of blended financing instruments and the implementation of effective and comprehensive support efforts,' he says.

'Not only will this make it easier for new entrants to access financing, but it will effectively kick-start new agricultural enterprises, and facilitate more inclusive and equitable access for black people, women and the youth.' ■