

Land Bank in perfect position to assist transformation



FARMING SUPPORT

Bennie van Rooy

WITH THE AGRICULTURAL sector now sharply in focus following the ongoing national discussions around land reform, questions around structural and institutional readiness to support accelerated transformation in the sector have become increasingly relevant.

The responsibility to support accelerated transformation in the sector will undoubtedly have to be shared among many players, including, but not limited to the government, the private sector, as well as established commercial players.

Successful agricultural development requires the establishment of value chains consisting of land, infrastructure, funding, skills and expertise, as well as access to a supply and distribution channel.

Multiple role players will have to participate.

As a state owned entity right in the middle of this responsibility matrix, the Land Bank is perfectly positioned to deliver the support the sector needs to transform and grow. The expectation of the Land Bank is that it should add value to the transformation of the South African agricultural sector while remaining financially viable.

Additionally, the 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 South Africa is just less than a third, and it remains one of the only options for small black farmers.

There is a continuous tension between the bank's mandate to transform the sector, which requires affordable financing to clients, who expose the bank to relatively higher credit risk, on the one hand, and the expectations for sound and sustainable financial performance, on the other hand.

Land Bank's current funding model requires it to raise funding in the commercial, capital and debt markets, with no direct funding support from the government, apart from limited guarantees from time-to-time in support of its various funding initiatives.

The cost of such funds is market-related and commercial investors have specific expectations in terms of returns, non-performing loan ratios, cost-to-income ratios and balance sheet ratios, which limit the bank's ability to respond to certain developmental and transformational aspects of its mandate.

With the country one step closer to land transfers at scale, and hopefully thousands of black first-time beneficiaries wanting to productively work this land, due consideration on the bank's current capital and funding structure must be given to ensure that it is fit-for-purpose to sustainably support accelerated transformation.

Opportunities

Despite the challenges, the Land Bank has made significant progress over the short term in implementing a strategy that gives effect to national imperatives for inclusive growth in the agricultural sector.

It has also worked to shore up funding in support of these transformative initia-



The expectation of the Land Bank is that it should add value to the transformation of the South African agricultural sector, while remaining financially viable, says the writer.

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tives, while establishing and maintaining the highest standards of corporate governance, and ensuring that it has a competent and committed organisational structure to deliver on this transformation mandate.

Over the past three years, the bank has diligently diversified its sources of funding in order to continue supporting agricul-

tural sector growth and transformation. In the last year alone, it has managed to raise around R3 billion in funding from international development finance institutions such as The World Bank, The European Investment Bank and the German KfW Development Bank.

This is in addition to growing support

from local investors. All of this has been secured on the back of the bank's clean governance record and commitment to sound banking principles. These lines of funding are mainly tapped into to finance the emerging farmer sector.

Continued positive feedback from investors is as a result of practical initiatives including the implementation of a revised Code of Conduct and Code of Ethics policies; the adoption of a Politically Exposed Persons' Policy; as well as enhancements to its Domestic Medium Term Note Programme to improve transparency, provide additional investor protection mechanisms and raise investor confidence in general.

Gross loan book

Furthermore, the bank has exponentially increased the transformation component of its gross loan book since 2012 from a very low base to about 12 percent currently (a 440 percent increase since 2012). Its intention over the next 3 to 5 years is to increase the share of transformational transactions to 30 percent of its total loan book or R15bn on a sustainable basis.

But how does this progress translate practically for marginalised groups wanting to access and excel in the agricultural sector? The Land Bank currently supports around 1 500 black farmers through its network. Of these, around 250 are female and more than 130 are under the age of 35.

The bank has provided around R76 million in interest rate subsidies across the board in the last year to help ease the cost of funding challenge that many new entrants to the sector face. To mitigate against the impact of a lingering drought, the bank has disbursed almost R400m in loans to farmers over the past three years.

Even with this progress, the pace of

transformation is admittedly still slow. In order to accelerate transformation and inclusivity of the sector, there could, with government's willingness and financial ability, be opportunities to provide further funding for farmers through more blended lines of funding – a mix of state-sponsored grant funding and loans from development finance institutions such as the Land Bank.

The bank has also taken the initiative to facilitate greater collaboration with different stakeholders in direct response to an often valid criticism of a lack of co-operation and co-ordination between players to drive development impact. For every R100m in grant funding that the bank receives, it can extend up to R800m in funding at a subsidised interest cost of the prime lending rate less 2 percent over a five-year loan term.

The reality of the current land debate is such that the capacity of institutions set up to support transformation and inclusive growth in the economy, and specifically the agricultural sector, needs to be aligned to the expectations that will ultimately come from the resolutions to be taken.

In preparing for accelerated land reform and a more inclusive sector, the Land Bank will be focusing on developing comprehensive client value propositions across segments that more closely align its development mandate and provide real solutions to the challenges new entrants to the sector face. This, together with an unwavering commitment to corporate governance and greater collaboration will hopefully instil greater confidence that the bank remains best placed to support agricultural sector growth and transformation.

Bennie van Rooy is the chief financial officer at the Land and Agricultural Development Bank of South Africa (Land Bank).