

HISTORY OF LAND BANK: Financing Agriculture for 100 years



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About the Contributors & the Book

Dr Moraka Makhura



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and Partners

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Leadership (Board &
Management)

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Contributors

Let My People Go To Land Bank!

- “You fellows”, his conversation began, “you’re just playing around with the soil. If we had this land we’d produce far better crops of cane than you do.”
- “Our handicap,” “is that we lack two things which you’ve got – fertiliser and machines. I think if we had these things our crops would be better. They cost money”
- “But doesn’t the sugar mill down below help you – the one that buys and crushes our cane?”
- “No, it doesn’t help us at all.”
- “Oh. Well, then, why don’t you ask (Dr Langalibalele) Dube for money?”
- “I wonder,” I asked, “if you’re aware that Dr Dube finances his school partly from his own pocket?”
- My benefactor looked startled. He also seemed to sober down considerably.
- “We,” he said eventually, “**can get short-term loans from the Land Bank**”.
- “**That’s the difference. We can’t**”

-From the autobiography of Chief Albert Luthuli, Let My People Go (1962)

About the Book

- **Targeted audience**
 - **Agriculturists**, researchers, analyst, historians, **parliamentarians**, agri-journalists, **students**, teachers, planners, organisational leaders
- **Highlights**
 - Agriculture developed with support
 - Land question addressed by specific instruments
 - Institutions are shaped by policies & politics of the day
 - Land Bank performance linked with economic performance
 - Land Bank has been addressing market failures in agricultural finance

Presentations

- **Hundred Years of Land Bank : Dr Japie Jacobs**
- **The Land Bank and Agriculture Today: Keneilwe Nailana**
- **Future Role of Land Bank: Dr Moraka Makhura**

The Story of the Land Bank: Success or Failure?

Dr Japie Jacobs



Economic and Financial Background

- Development of gold and diamond mining sector end of 19th century changed the SA economy
- Infrastructure development brought SA closer to world economy.
- Role of agriculture in the economy (20% share of GDP, Employment, Export)
- SA War or Anglo-Boer war, the Union of SA 1910, Rebellion 1914 and drought 2004
- People (and farmers) were poor, it was essential to restore agri-production.

Need for Specialist Bank in Agriculture

Why a state Land Bank?

- Lack of readily available finance for farmers
- Many Banks focused on other sectors (and overlooked agriculture)
- Finance was costly for farmers
- Riskiness of agriculture- regular droughts
- The 3 provincial Land Banks – taken over by Land Bank in 1912
- It was also an international phenomenon to have agricultural banks providing for the particular needs of agriculture, i.e. seasonal production

The 3 phases of Land Bank History

- The pioneering years – until 1936
- State intervention – Marketing Act, 1937 (1968)
- Deregulation – 1980's, agriculture and financial markets

Pioneering years of Land Bank

- This pioneering phase characterised by promulgation of critical legislation, which affected the structure of agriculture
- Land Settlement Act (1912) for settling farmers
- Natives Land Act (1913) on discriminatory land ownership
- Cooperatives Societies Act (1922). Liability of individuals and groups

State intervention and Land Bank

- The phase (1936-1980's) was marked by economic and political shocks (depression, international trade restrictions, war, drought)
- Interventions and support in marketing and other assistance (finance and production)
- Role of agri co-ops
- Commercial farming began to take shape-mechanisation
- Introduction of other discriminatory legislation

Deregulation

- Financial sector started deregulation in the 1980's (With De Kock Commission)
- Agricultural sector peaked in the 1990's
- Control Boards were abolished
- Liberalisation or freeing of international trade (Marrakech Agreement 1994)

The Land Bank Business

- Business of the Bank entails raising funding and lending to farmers and on-lending to Cooperatives
- There were critical stakeholders:
 - Government as shareholder (National Treasury & Agriculture)-government support
 - Funders / investors
 - Farmers, cooperatives and commodity groups

Funding of Land Bank

- Cost and sourcing of funding for Land Bank
- Government contribution in funding Land Bank
- 1959 long-term debentures issued by Land Bank
- Funding from international capital market?

Lending by Land Bank

- Broad range of financial products
- Finance restricted to agricultural and agri-related activities
- Credit risk
- Security for Land Bank loans; land, liens, pledges, etc
- Retail finance evaluation norms

Land Bank and government policy

- Land Bank Act of 1944 – Consolidation Act
- Land Bank in Namibia and London
- Land Bank operations via branches and cooperatives
- Agricultural Credit Board – for category III farmers (vs Category I & II)

Impact of deregulation on Agric & Land Bank

- Increased riskiness
- Land Bank incurred losses
- Land Bank sustainability challenged
- Higher funding costs
- Increased competition from banks
- Land Bank providing credit to category I and part-time farmers

Challenges & opportunities that faced LB

- Financing emerging farmers
- Developing new products and services
(Development Fund)
- Increased riskiness of the agricultural finance market
- Inadequate support schemes for emerging farmers

Development finance in a changing environment

- From Development Finance Unit to Retail Emerging Markets (REM)
- High transaction costs of financing new and small scale farmers

Government Assistance Programmes

- Experimentation/piloting of assistance
- Land Bank assisted in
 - LRAD
 - MAFISA
 - AGRIBEE
- Land Bank minimally involved
 - SLAG
 - CASP
 - PLAS

Transformation of Land Bank

- Efforts to turnaround
 - Project Gateway (2003)
 - Project Shanduka (2004)
 - Report Mckinsey and company (2005)
 - Fit for Future (2009)

Success or Failure?

- Establishing and keeping farmers in agriculture
- Net exporter of agri-products and provider of employment and substance
- Financing agricultural growth
- Keeping interest rates lower than they otherwise would have been
- Special financial products for agriculture
- Understanding of agriculture and its problems – and being there for farmers when they experience problems
- Challenges of managing risk in agri finance
- Assist establishing emerging farmers in agriculture
- Turnaround times always a challenge
- **ALL IN ALL, WE CAN SAY LAND BANK WAS A SUCCESS**
- And it will continue to play a major role in financing the future growth of the agri-industry

Land Bank and Agriculture Today: Fit for the Future?

Keneilwe Nailana



Land Bank Today

“real objective is to retain the farmers on the land, and to this end all steps within reason, and having due regard to the safety of the Bank’s advances, should be taken” –Tom Herold : Land Bank 1st General Manager 1912

Land Bank and Agriculture today

LBIC- Agricultural Insurance

“In our new business model, sustainability takes precedence over maximising short term profit” – Phakamani Hadebe : Land Bank CEO 2012

Land Bank Today....

Sustainability Pillars






Land Bank Today....

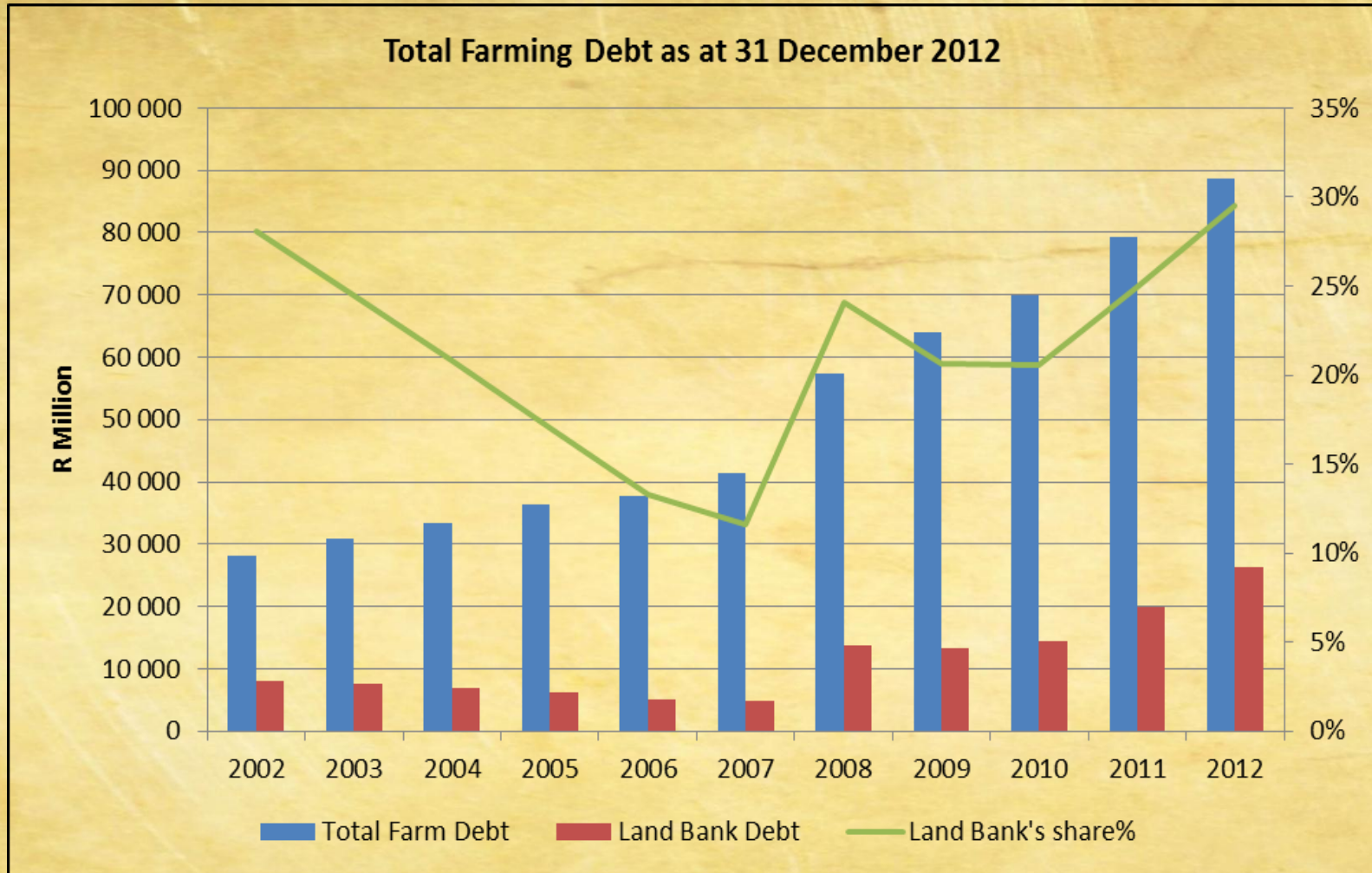


Land Bank Today....

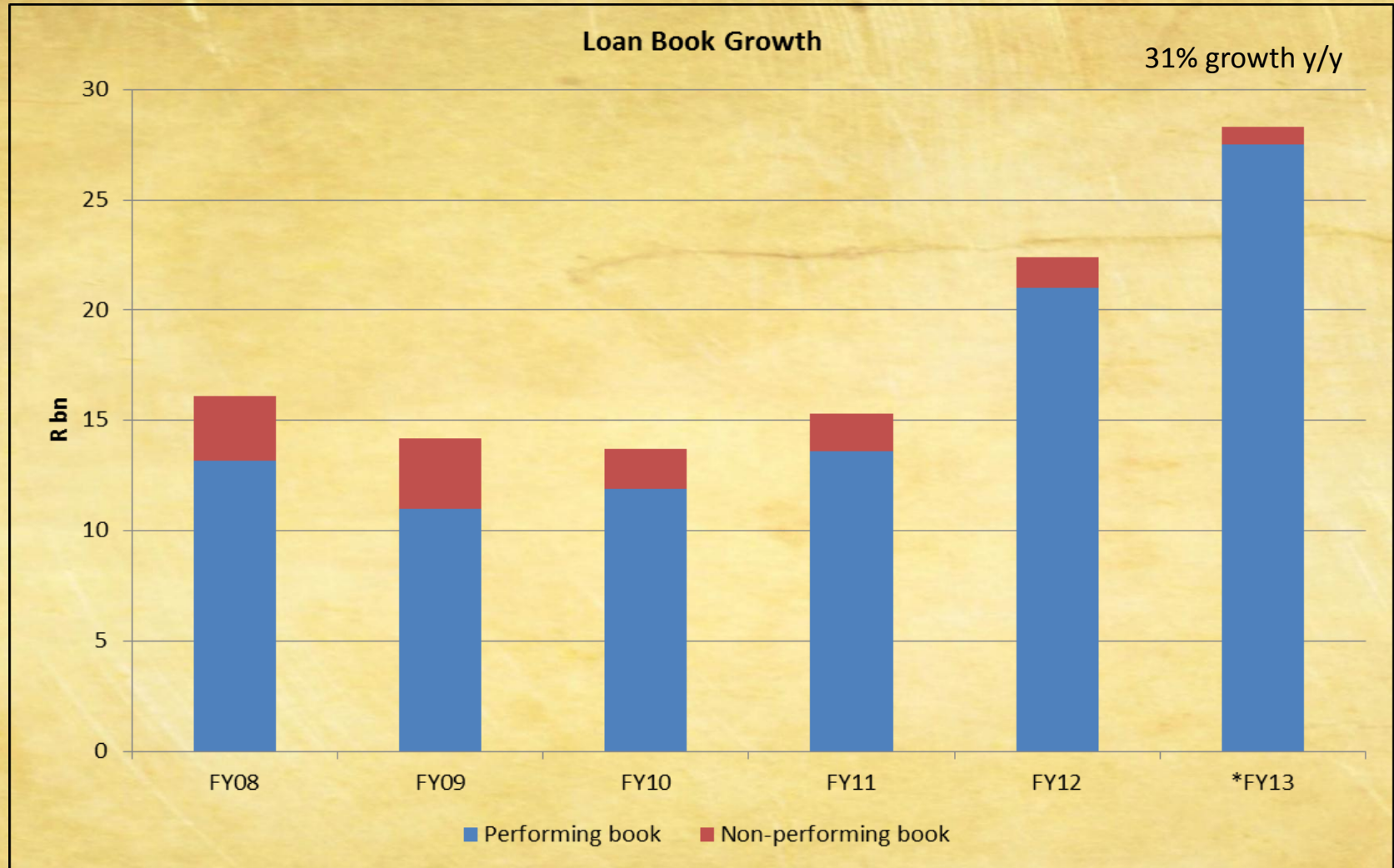
Business Operations

 REM	 RCB	 B&CB
<ul style="list-style-type: none">➤ Wholesale Finance Facility➤ Short Term Products<ul style="list-style-type: none">• Production financing➤ Medium Term Products<ul style="list-style-type: none">• Instalment sale finance	<ul style="list-style-type: none">➤ Wholesale Facility➤ Short Term Products<ul style="list-style-type: none">• Production finance➤ Medium Term Products<ul style="list-style-type: none">• Instalment Sale Finance➤ Long Term Products<ul style="list-style-type: none">• Mortgages	<ul style="list-style-type: none">➤ Wholesale Facility➤ Working capital financing➤ Cash credit accounts➤ Acquisition Finance

Land Bank in Agriculture

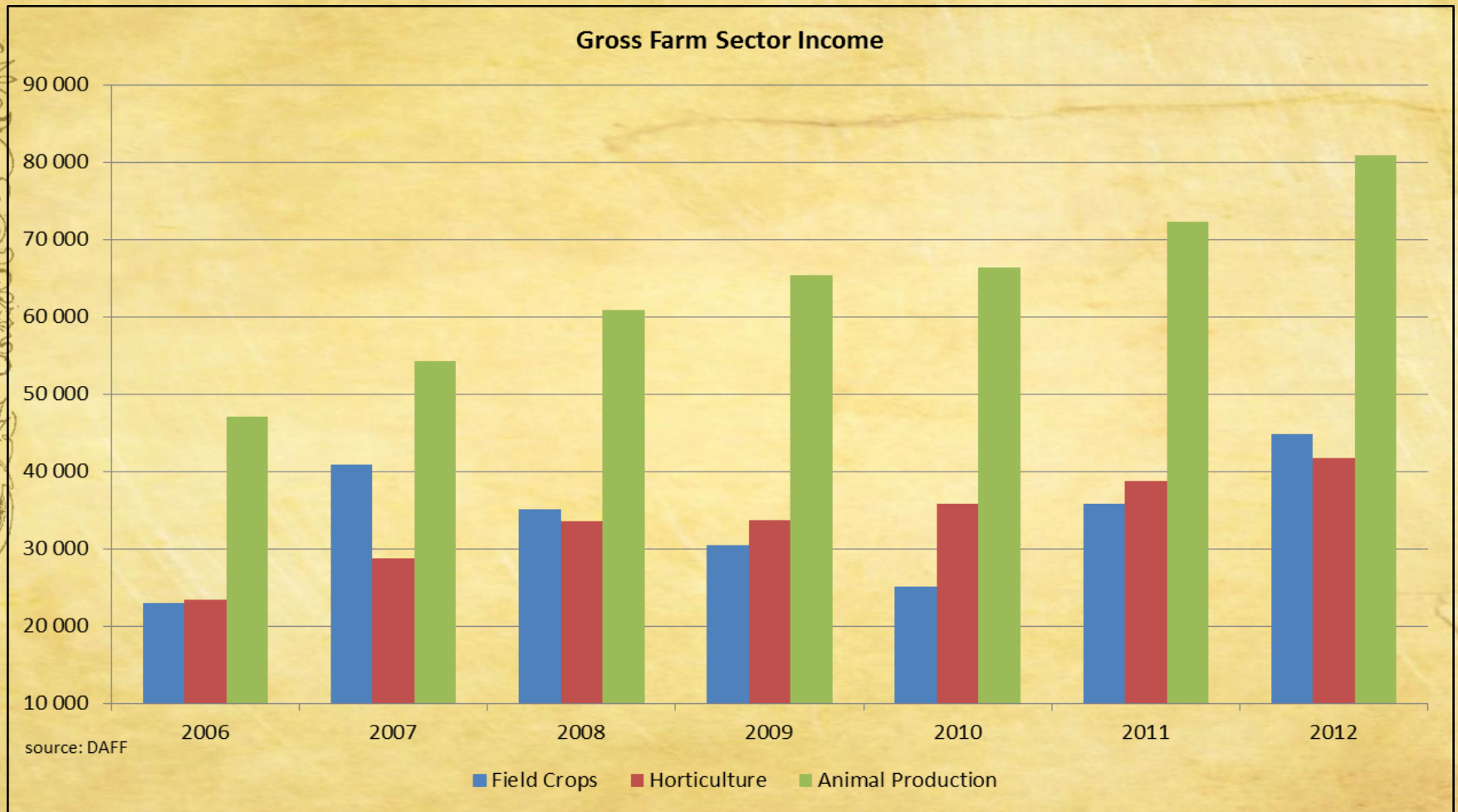


Land Bank in Agriculture



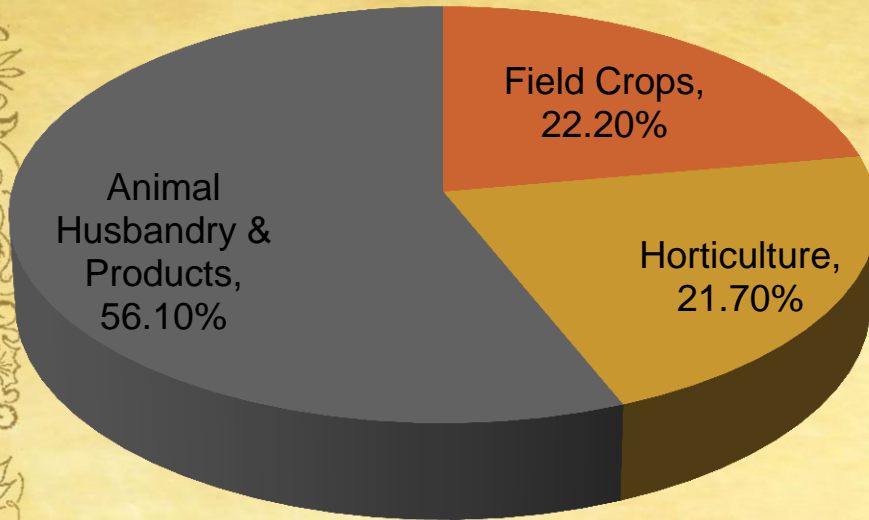
Land Bank in Agriculture

Gross Farm income R167 bn

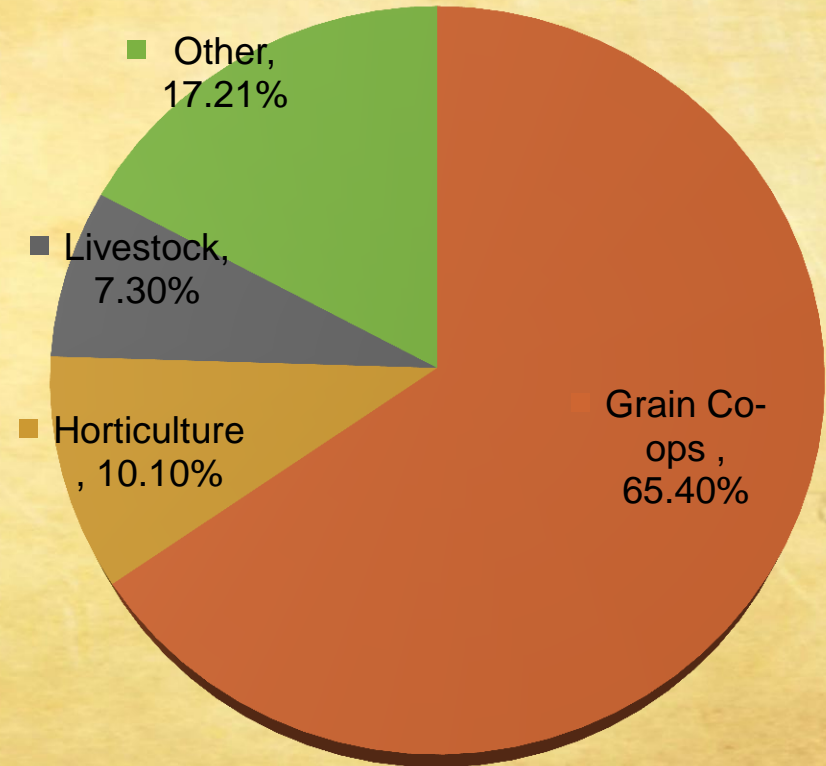


Land Bank in Agriculture....

RCB



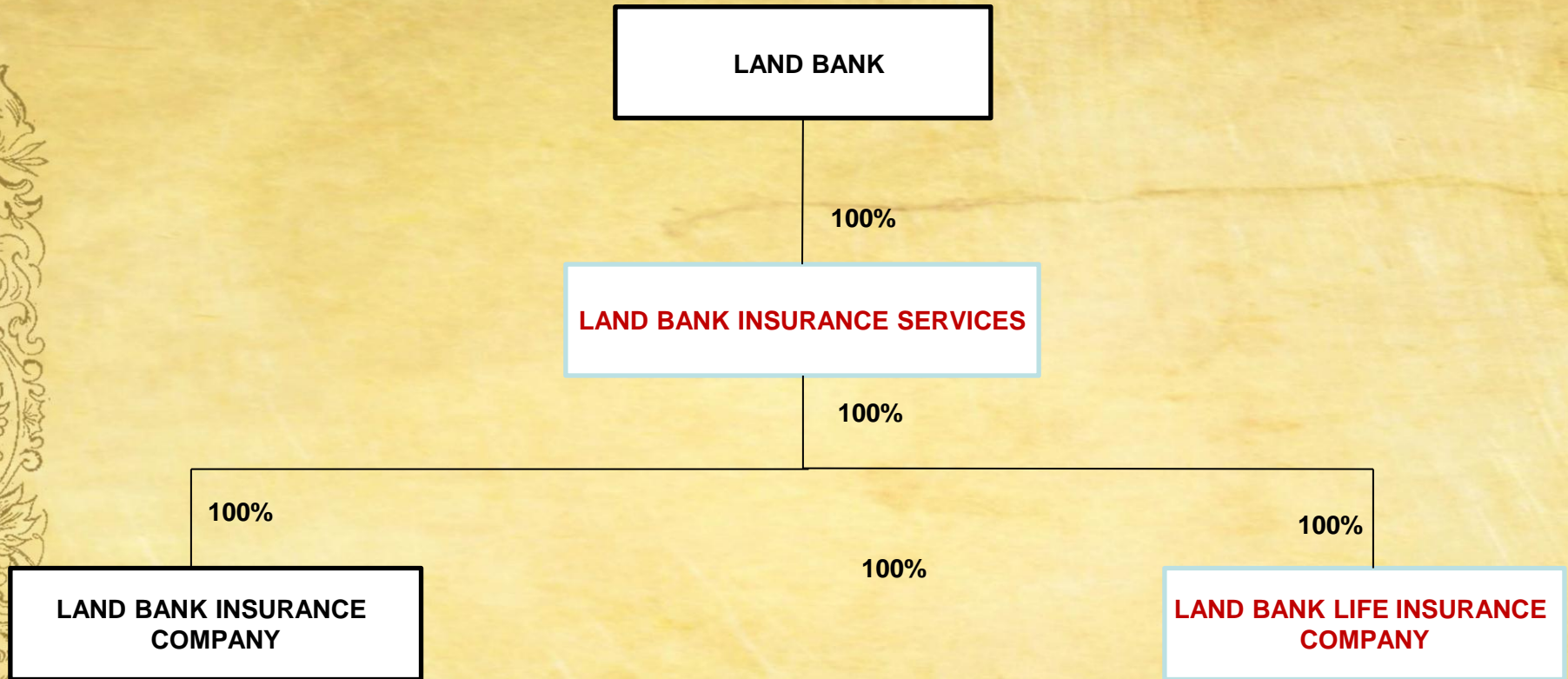
B&CB



SAVVEM-LBIC

- Land Bank became involved in life insurance products in 1955
- Pleas from farming community and succession planning
- South African Mortgage Insurance Company
- SAVVEM
- Consequently SAVVEM became a subsidiary of the Land Bank
- Limited to granting life cover to Land Bank Mortgage loan clients
- In 2006 it was renamed the Land Bank Insurance Company
- In 2012 LBIC broadened its insurance mandate

SAVVEM-LBIC



- Created two insurance companies
- Offering long term and short term insurance
- Crop, asset and legal insurance
- Life cover

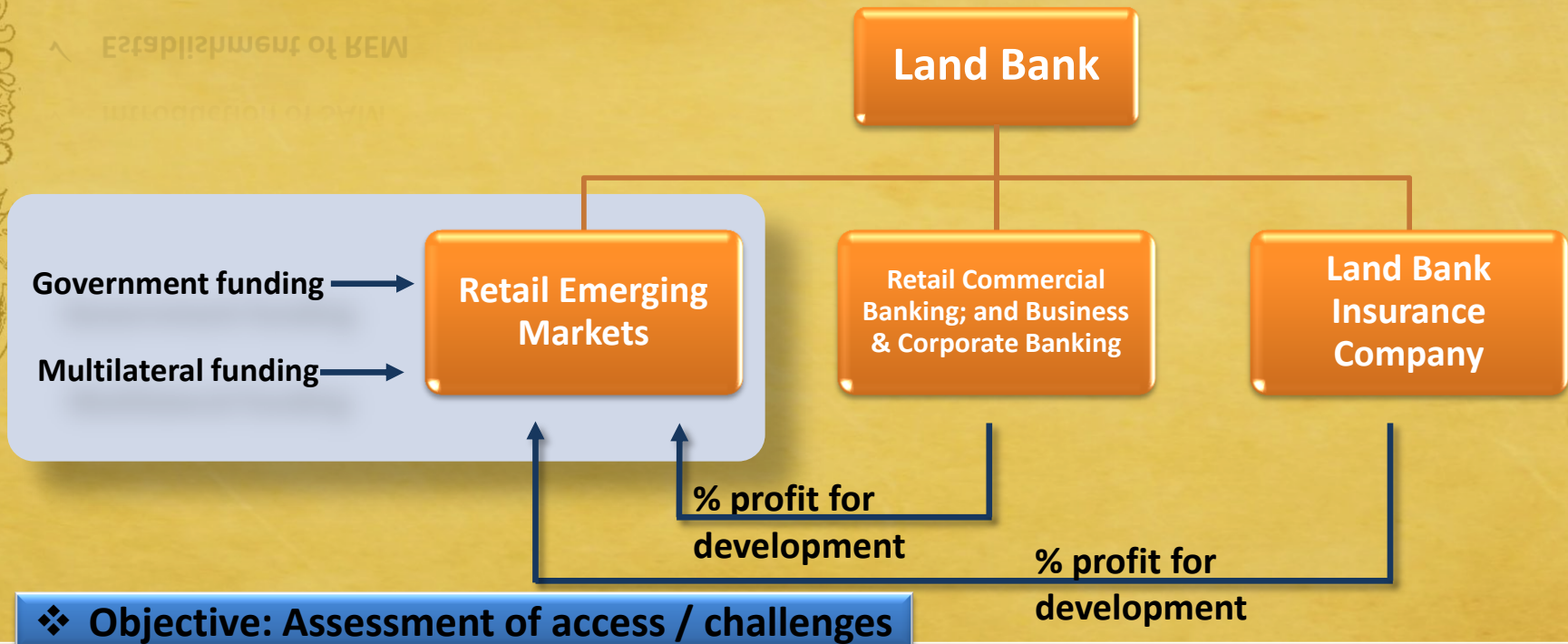
SAVVEM-LBIC

- The objective is to have a specialist insurance company that understands the inherent risks in agriculture
- Increasing uncertainty of weather conditions-global warming
- Agricultural production and income has become very volatile
- Also important for succession planning
- Address market failure/gaps- where commercial insurance companies disinvest, LBIS should be able to cover the gap

Sustainable New Business Model

- ✓ Introduction of SAM
- ✓ Establishment of REM
- ✓ Refocusing of the approach to have maximum impact

REM Strategic Priorities	• Maturity to commercial farmers
	• Development impact a priority
	• Less focus on profit
	• Creation of new farmers



The Future Role of Land Bank: Ready for next century

Dr Moraka Makhura



Context of Land Bank Future Role

- **National Development Plan; Vision for 2030**
- “By 2030, South Africa’s rural communities should have greater opportunities to participate fully in the economic, social and political life of the country.The vision includes better integration of the country’s rural areas, achieved through successful **land reform, job creation** and poverty alleviation.
- Through irrigated agriculture and dry land production – with special care for smallholder farmer.

Future Role of Land Bank

- **Social Perspective:** taking agriculture to *destitute*
- **Economic Perspective:** Contributing to GDP growth and provide employment and food
- **Policy perspective:** responsive to government policy
- **Agricultural perspective:** stabilising sector and food prices and food security
- **Land development:** agricultural land market
- **Institutional and regional impact:** beyond borders
- **Land Bank and NDP:** custodian of agri funds

The ground laid for medium-term role

2016 Corporate Landscape

- 35% of Market Share
- Development as % of total book: 15% (an increase of R6 bn)
- 110 000 new job opportunities
- Defined maturity risk level
- “Best Company to Work for” survey (Sector top 3)
- Transformation: Minimum of BBBEE Level 2
- Env. and Social Sustainability Ranking (target under development)

Achieving 2016 Corporate Landscape

Enablers

- Fit for Future
- Development
- Business sustainability scenario model
- Enterprise Risk Management
- Human Capital
- Env. and Social Mgt. Programme

Success Depends on Government support

- Grant funding through fiscus
- Use land Bank to enable entry to commercial farming
- Use explicit and implicit subsidies for mortgage loans
- Stepped programme of financing with grace period
- Long term lease with full commercial rental
- Sinking fund at the Land Bank to give full title
- Provide other support

Long term objectives

- Sharpening its **responsiveness** to government priorities
- Advancing a **broader** agricultural sector (employment)
- Supporting **agriculture's contribution** to the economy
- Fulfilling **development mandate** (DFI posture)
- Play bigger **role in land reform** process
- Create **regional foot print** in SADC
- Create **knowledge platforms** to share experience
- Comprehensive agriculture & rural development (Agric & Rural Development Plan 2030/50!!)

The Bank is ready for the next century

- The Bank has to walk a tight rope to develop spaces where there are **market failures** in agricultural sector and **crowd in** the private sector, without loosing grip of its **market share** for purpose of **food price stability**.
- Must manage its **credit risks** to remain viable

Thank you



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