



**DFIs and their Mandates:
Pitfalls, challenges and possible solutions-Land Bank
Perspective**

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Importance for Public Investment in Agriculture



Today the capital needs for SA agriculture are even more explicit for attaining

- sustainable growth in order
- to meet the steadily rising need of food and fibre for the burgeoning population,
- as also making due contribution in earning foreign exchange through exports.

Source:

Public Investment in Agriculture: Role of Government



The Central government has an important role to play through macro-economic policies that:

- affect agriculture by provision of adequate resource transfer to Provincial governments & SOE's ,
- ensuring that State finances and options are not affected adversely by the macro-economic consequences of decisions taken at the centre.

Source:

Public Investment in Agriculture: Role of Government



- **Public investment in agriculture is the responsibility of the States:**
 - But many States have neglected investment in infrastructure for agriculture.
 - There are many rural infrastructure projects, which have started out but are lying incomplete for want of resources.

Public Investment in Agriculture: Importance

Public investment will have a leading role to play:

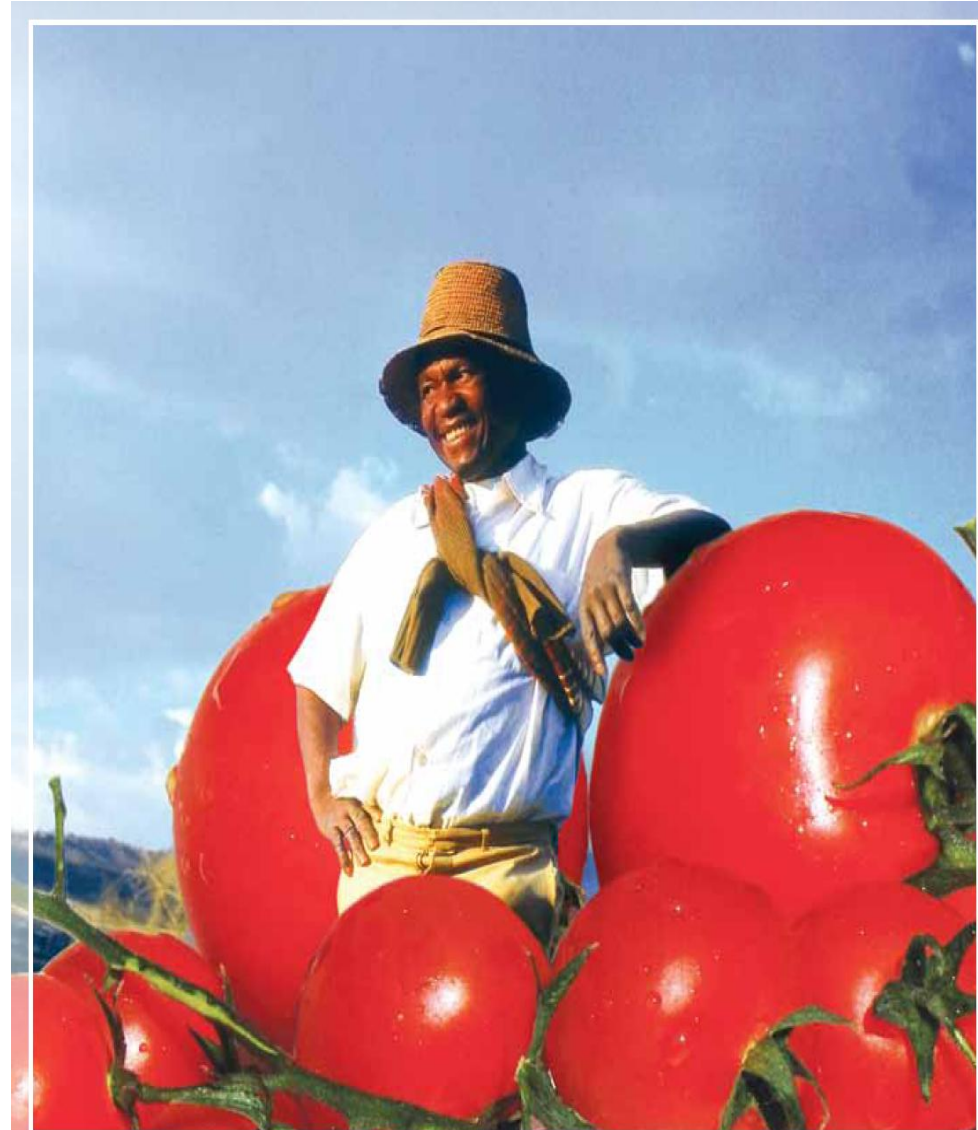
- in the form of infrastructure as well as necessary research and development in farm technologies.
- Spread of infrastructure in power, transport, communication, storage and processing sectors are important.

There is an emerging need to step up public investment to implement land reforms and employment prospects of rural labour.

The productive base of the farm sector also need to be enlarged through direct public investments in irrigation schemes, soil and water conservation works, land reclamation, construction of regulated market structures for farm produce etc

**Within the above context, what is the role of a
DFI?**

Land Bank is and has always been mandated to broadly support the Agricultural Sector in SA, given the sector's specific risks factors



Dual Structure of the sector

- Like South African economy, which is structured along the formal and informal economy, agricultural sector is also structured along dual lines:
 - **Formal sector:** populated by commercial farmers;
 - **Informal sector:** comprised largely of small or emerging farmers.
- Each facing peculiar challenges and opportunities.



Commercial Famers



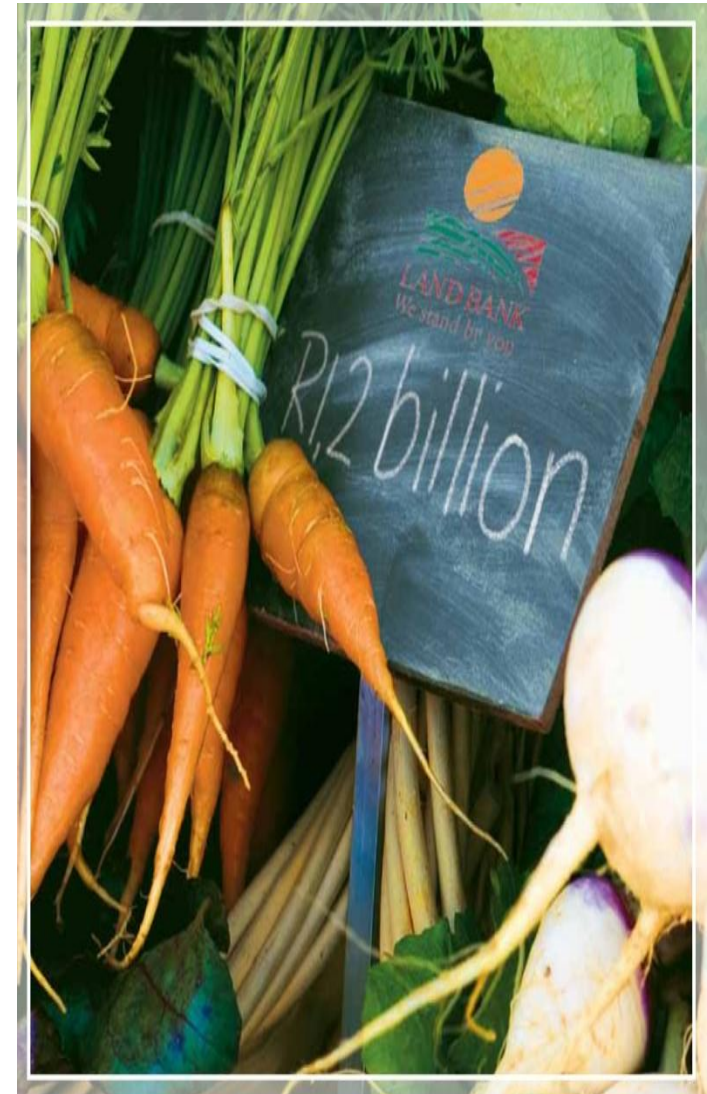
- There are currently under 40,000 of them- a decrease from approximately 60,000 in the mid 90s:
 - While some became the victims of globalisation, others grew bigger to benefit from economies of scale; and
 - Indeed, industrial farming calls for scale economies
- A good proportion of them are highly efficient.
- Major challenge is lack of succession planning,

Emerging Farmers

- According to DAFF, there are approximately 1.3 million of them in SA;
- Many with no secure land tenure, suffering from skills deficiency, lack of market access and many other shortcomings;
- Making them high risks clients and thus to be charged risk-aligned high pricing;
 - **And herein lies the problem;**
- These are the prime target for development finance (long term and concessionary rate) and yet difficult given the current funding model; and
 - However, Land Bank working with government to address this challenge.

Land Bank Funding Sources

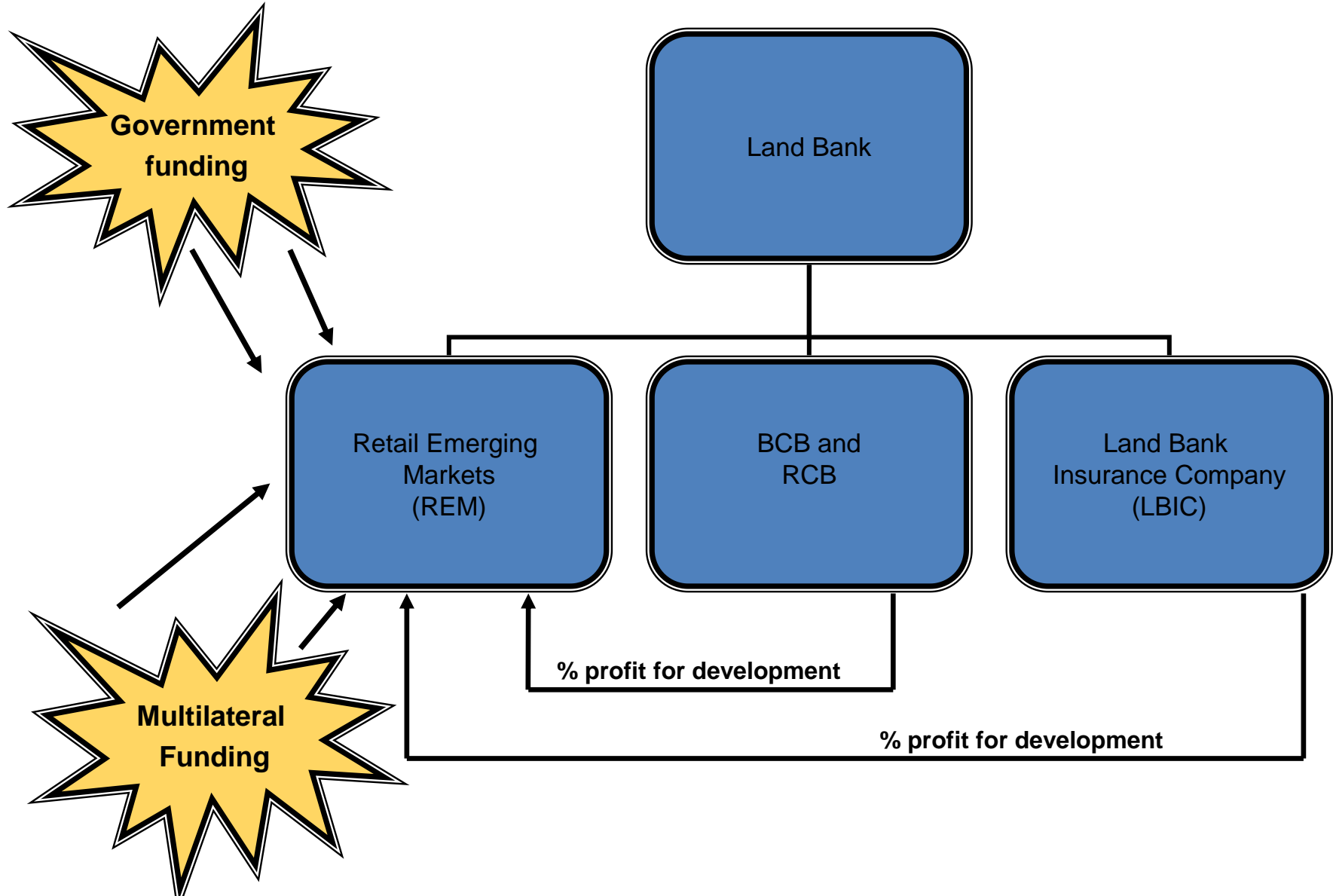
- Unlike the provincial DFIs and BNDES we saw earlier, Land Bank is expected to source funding from the Capital Markets- the same pool used by commercial banks
- The implication of the above is the convergence of risk appetite with those of the commercial banks.
- This also means similar pricing structure to the detriment of emerging farmers and development.
- Even if we want, obligations with capital markets constrains the Land Bank's ability to provide concessionary and long tenor loans.
- Even made more difficult as Land Bank is not a deposit taking institution.
- In the end, constraints LB's ability to deliver on the developmental state outcomes



Hence the birth of REM Segment (ring-fenced)

- Land Bank has launched the Retail Emerging Markets (REM) for dedicated attention to emerging farmers;
- Working closely with government to ensure concessionary loans to this target market;
- Some of the programs involving collaboration with government:
 - Value Chain Financing;
 - Curatorship Model; and
 - Collateral Guarantee Fund

Funding Model

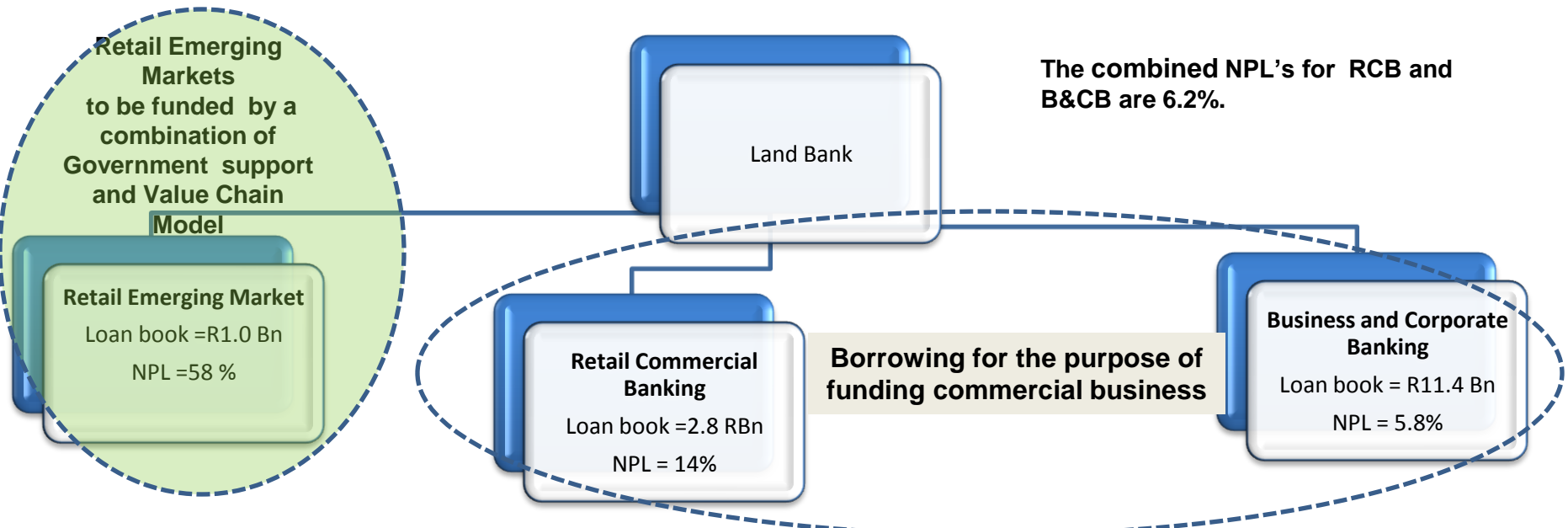
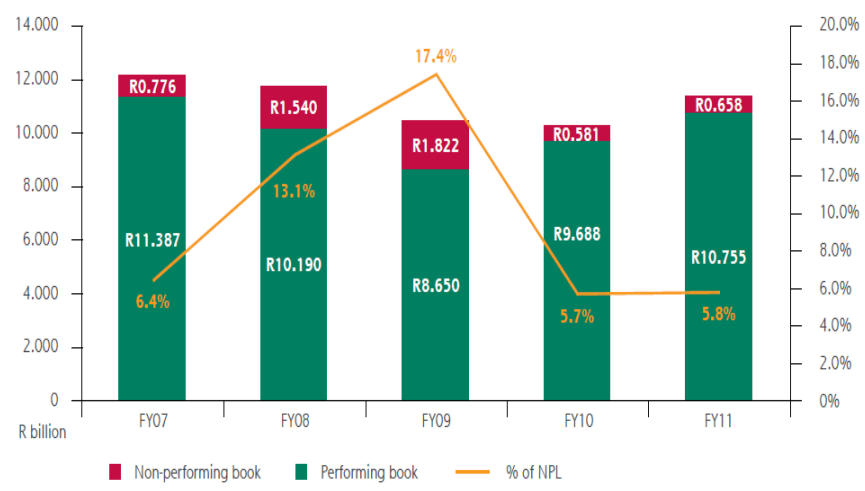
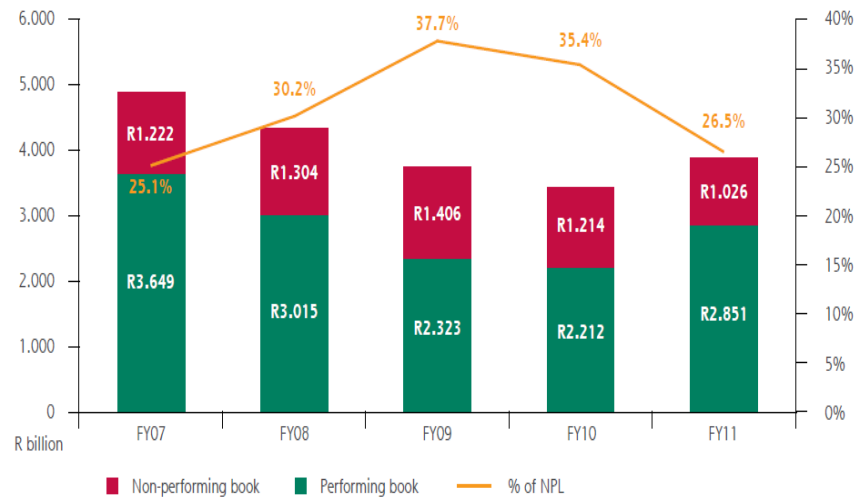


Lending Model



Retail Commercial Banking (RCB) – Previously :Retail

Business and Corporate and Banking (B&CB), Previously : CFU



Sustainable business model: Wholesale Funding Facility

